



GeoEconomic Lens

Viewing the global economy through the lens of geopolitics

Fallout from the Iran War

May 2026

The Persian Gulf & Strait of Hormuz

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FUTURES

In this Issue

<i>Executive Summary</i>	1
<i>After Iran, the Future of U.S.-China Relations</i>	3
<i>Structural Developments</i>	5
Changes in the Defense Industry	5
China and Taiwan: Risk and Opportunity	6
Redistributing Risk in Europe	7
The AI Talent Race	9
Bad News and Good News for the Russian Economy	10
Feature	
<i>Is There an Impending Food Crisis?</i>	12
<i>Repercussions By Region</i>	24
<i>The New Normal in Insurance</i>	42
<i>Graphic of the Month</i>	46
<i>The Month Ahead</i>	48

Executive Summary

By Antonia Colibasanu

April demonstrated that systemic changes, not isolated shocks, are shaping the global economy. Resilience is replacing efficiency as the organizing principle. This is redefining how states project power, how businesses operate and where capital flows. The Iran war and its cascading effects across energy, defense, trade and finance reveal how risk is becoming embedded in the architecture of the world economy.

The centrality of the Strait of Hormuz to the global economy makes it the focal point of our analysis for April, shaping how we assess all developments related to the war in Iran. The disruption of shipping through Hormuz, a critical artery for global energy, has driven oil price volatility, increased shipping and insurance costs, and tightened financial conditions worldwide. Geography – and control over it – has been fundamentally repriced, with strategic choke points again shaping global economic outcomes.

With that in mind, three themes defined the past month:

First, global systems are being reshaped, as, second, energy shocks spill into food insecurity and, third, insurance markets drive restructuring.

The Iran war exposed the vulnerability of fuel logistics and power-dependent digital infrastructure, accelerating a move toward decentralized energy, cybersecurity integration and resilience-focused operations. Disruptions to maritime routes highlight the limits of global supply chain efficiency. These pressures are feeding into financial markets. In Europe, for example, higher energy prices and persistent inflation are shifting risk into core economies, raising borrowing costs and tightening conditions. More broadly, geopolitical shocks are increasingly transmitted directly into capital markets, linking energy disruption to inflation, monetary policy and sovereign risk.

Meanwhile, competition is becoming more fluid and multilayered. For instance, China and Taiwan are demonstrating a dual-track approach, combining coercion with selective engagement. Global supply chains are also undergoing structural reconfiguration. Production and investment are shifting away from concentrated dependencies toward more diversified, regionally distributed models. Strategic sectors – particularly AI, semiconductors and energy – are increasingly shaped by national security considerations.

Energy shocks become food insecurity, which becomes political and economic instability. More than simply an energy shock, the Iran war is a multilayered disruption of the global economy. Higher energy prices feed into fertilizer markets, raising production costs and threatening agricultural output. In turn, higher food prices increase the likelihood of political and economic instability. The implications are particularly acute for import-dependent regions, where rising costs could translate into food insecurity over time.

The regional analysis confirms that, while the intensity of the impact varies, the direction is consistent. Emerging markets are facing rising inflation, fiscal pressure and currency instability, while even advanced economies are experiencing slower growth and higher costs. The key pattern is not collapse but persistent cost inflation and volatility across all regions.

Insurance is becoming more regional as states fill gaps left by private insurers. The transformation of insurance markets is a critical but overlooked development. Rising war-risk premiums and more selective coverage directly affect global trade flows. As private insurers reduce exposure, governments are stepping in with sovereign-backed mechanisms, contributing to the emergence of regionalized insurance systems. The ability to insure trade is becoming a strategic tool, effectively determining which routes remain viable and which become economically infeasible.

Separate from these developments, the report highlights the evolving trajectory of U.S.-China relations – shaped less by the Iran war and more by a longer-term strategic recalibration, in which incentives for coordination in trade and technology remain intact. It also tracks shifts in the role of the U.S. dollar, with a graphic illustrating how recent volatility reflects gradual diversification despite continued dollar dominance. Together, these serve as key indicators of how states and markets are adapting to rising systemic risk, setting the stage for what to watch in the month ahead.

[Return to Index](#)

After Iran, the Future of U.S.-China Relations

By George Friedman

The Iran war has grabbed the world's attention, and to some degree this makes sense: Its short-term effects were felt immediately, particularly by regular consumers at gas pumps. The rest of this issue of GeoEconomicLens will be devoted to those consequences. But the most important long-term aspect of the conflict is how it will affect bilateral relations between the United States and China. And so far, it hasn't affected them at all.

In fact, the only consequence seems to be the delay of a summit between presidents Donald Trump and Xi Jinping. (It was moved from March 30 to May 14.) Beijing has criticized the war and called on Washington to end it but otherwise stayed out of it entirely. Rumors to the contrary – specifically those emanating from Russia over Chinese military aid – have not been substantiated. Instead, China assigned its ambassador in Pakistan to attend mediation talks in Islamabad.

The reason for Beijing's abstention is twofold. First, China needs to rehabilitate economic ties to the U.S. – still its largest customer – as economic growth hovers below 5 percent. Second and certainly more urgent in the short term, China is heavily dependent on imports of oil and liquefied natural gas that pass through the Strait of Hormuz. Higher energy prices raise the price of exports, which are still the primary engine of Chinese economic growth and thus the basis of public contentment.

In the short term, China needs the war to end for domestic political reasons. In the long term, it needs the war to end for economic reasons. Higher prices in the U.S. are making goods less affordable, and they were already high thanks to global tariffs generally and Chinese tariffs specifically. Economic recovery in China is predicated on some sort of accommodation with the U.S., and it will be harder for them to reach accommodation if Beijing is working against Washington in Iran. Indeed, after the war started, China's vice premier and America's treasury secretary met in Paris, where they very likely discussed the issues that would ultimately be dealt with at the upcoming summit. Rhetoric aside, there has been nothing to suggest that the summit has been derailed. Nor has Washington asked for anything more than a delay despite the pinch in Chinese oil supplies.

A shared interest in reaching an understanding on trade and the muted reaction to the Iran war are important indicators that a U.S.-China agreement on trade is in the process of emerg-

ing. Central to that process are issues such as the future of Taiwan and the easing of military tensions. Taken together, the U.S. and China account for nearly half the global economy. They could fundamentally reshape the global economic system if they wanted to. But for that to happen, they would need a new relationship based not only on trust but also on a common understanding of how this evolution would benefit both. For the U.S., there is a certain logic to this. After World War II, the U.S. helped Germany and Japan to evolve economically – not out of charity but out of self-interest. States don't have friends or enemies, just permanent interests. The U.S. was vital to China's initial economic explosion, and if China is to recover from its current malaise, the U.S. will be vital again.

Given the willingness of both sides to continue discussions on economic relations, it is not radical to assume that a deeper interaction on the corporate level is likely, with the most dynamic sectors being the most likely to collaborate. This would be a radical shift in relations between the two with significant effect on global economics. While difficult to imagine, it is a logical and even probable outcome if the summit, whenever it occurs, lays the foundation.

[Return to Index](#)

Structural Developments

Changes in the Defense Industry

By Andrew Davidson

Summary: Digital infrastructure and energy systems are becoming core vulnerabilities in modern defense, raising operational risks and creating new opportunities for investment in secure, self-sustained and distributed technologies.

April brought to light several structural vulnerabilities within the defense industry. Disruptions caused by the war in Iran – particularly the closure of the Strait of Hormuz but also mining and attacks on nearby vessels – showed how quickly energy supply chains can be disrupted. Meanwhile, a NATO exercise called Locked Shields 2026, which simulated large-scale attacks on power grids, telecom networks and government systems, revealed the increased vulnerability of digital and critical infrastructure to cyber disruption. [NATO](#) and [EU](#) plans highlighted critical digital gaps, as well as Europe's untenable reliance on U.S. cloud infrastructure. Together, these developments suggest modern defense capability is increasingly shaped by the resilience of energy flows and digital systems rather than purely kinetic strength.

Structural dependency is most visible in deployed operations. In U.S. Army deployments, more than [70 percent of logistics tonnage is fuel](#); some 55 percent is consumed by the logistics systems themselves. At the same time, communications, intelligence, surveillance and reconnaissance, air defense, and data processing all [rely on uninterrupted electricity](#), which is typically generated on-site through fuel-based systems. Put simply, fuel must be delivered through contested logistics routes, while digital systems require constant, reliable power.

Defense doctrines are changing accordingly, emphasizing a shift toward resilience in both domains. On the energy side, militaries are investing in transportable microreactors, microgrids and storage systems so that they aren't so reliant on fuel convoys. Autonomous resupply systems are also lowering exposure by adopting distributed logistics models. On the cyber side, exercises like Locked Shields have convinced defense officials that they need to integrate commercial cybersecurity capabilities into military operations, blurring the line between defense and private sector infrastructure.

These systems share a specific constraint: power. Hyperscale data centers, secure cloud infrastructure and AI-driven defense systems all depend on stable and scalable energy. Yet [global investment remains imbalanced](#); far more capital is directed toward energy generation than storage and distribution. This creates a bottleneck, particularly in contested environ-

ments where energy cannot be reliably transmitted.

The defense industry can expect structural realignments. International businesses and investors can anticipate more risk at choke points and vulnerable infrastructure. (In both cases, there is likely a demand for solutions to reduce risk.) Key opportunities are emerging in energy resilience (through, say, microgrids and storage), cybersecurity and secure infrastructure. Capital will likely flow to firms that enable operational continuity and integrated energy-cyber solutions aligned with defense priorities. Future battlespaces will be defined not by platforms alone but by the integration of energy, cyberspace and infrastructure into systems capable of operating under sustained disruption.

China and Taiwan: Risk and Opportunity

By Victoria Herczegh

Summary: Tensions between China and Taiwan are intensifying through a mix of coercion and selective engagement at a politically sensitive moment. This highlights a transition from a static geopolitical rivalry to a more fluid and multilayered contest, creating a more volatile but opportunity-rich environment for businesses.

Tensions between China and Taiwan are not only rising; they are evolving in form and strategy. Recent developments suggest a dual-track approach from Beijing involving increased pressure and selective engagement.

One example of escalation is the cancellation of Taiwanese President Lai Ching-te's planned visit to Eswatini (formerly Swaziland), the last African country that formally recognizes Taiwan. The trip was derailed after several African nations, including Seychelles, Mauritius and Madagascar, **abruptly denied overflight permissions for the president's plane**. Taipei cited Chinese economic coercion, including threats tied to debt relief, as the reason for the cancellations. (Beijing denied any wrongdoing.) The episode points to a more assertive and targeted tactic: physically constraining Taiwan's ability to maintain diplomatic relations.

Meanwhile, China signaled a willingness to resume certain forms of cooperation, including direct flights and trade in specific sectors such as aquaculture, following a visit by an opposition leader from Taiwan's Kuomintang (KMT) party. Discussions of a long-term cooperation mechanism between the KMT and the Chinese Communist Party suggest that Beijing may be trying to influence Taiwan's internal political dynamics more directly. Infrastructure proposals, such as **a bridge linking mainland China to the offshore islands of Kinmen and Matsu**, underscore this combination of symbolic and practical outreach.

These developments occur alongside broader structural shifts in the economic relationship

between China and Taiwan. Taiwanese businesses have **dramatically reduced their exposure to China**, with investment flows dropping from over 80 percent in 2010 to under 4 percent in 2025. Production has increasingly relocated to Southeast Asia, to Mexico or back to Taiwan, while trade ties with the U.S. and the West have generally deepened, particularly in high-value sectors like semiconductors and artificial intelligence.

The timing intersects with ongoing efforts to stabilize relations between the U.S. and China. Any progress in bilateral negotiations could create space for a partial recalibration of cross-strait dynamics. However, any change would likely remain limited and conditional, shaped by strategic competition and domestic political considerations on all sides.

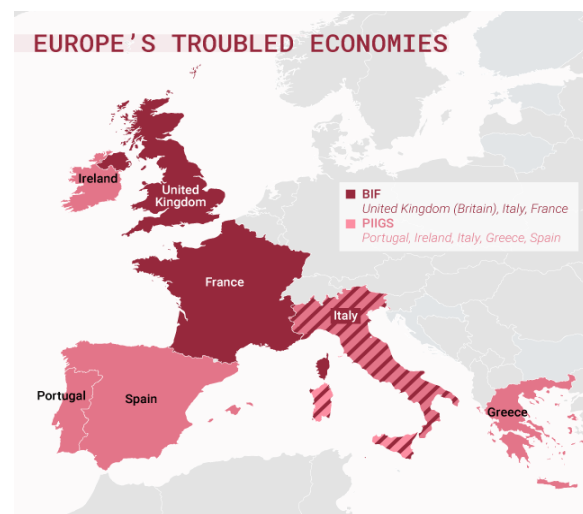
For international businesses and investors, this evolving landscape presents both risks and opportunities. On the one hand, rising geopolitical friction increases the likelihood of supply chain disruptions, regulatory fragmentation and sudden political shocks, all of which raise costs and add a level of uncertainty. On the other hand, the reconfiguration of trade and investment flows is opening new avenues for growth in alternative manufacturing hubs, as well as strategic sectors such as semiconductors, AI and green technologies.

Redistributing Risk in Europe

By Antonia Colibasanu

Summary: The shift in attention from the PIIGS (Portugal, Italy, Ireland, Greece and Spain) to the BIF (Britain, Italy and France) signals that the financial risk moving into Europe's core economies is raising borrowing costs and fiscal pressure while creating targeted opportunities in higher-yield debt, infrastructure financing and energy transition investments.

The **emergence of "BIF" as a market shorthand** reflects a shift in which parts of Europe are most vulnerable. Unlike the earlier PIIGS era, where stress was concentrated in the periphery, recent repricing – driven by conflict in the Middle East war, higher energy prices and elevated rate expectations – is now pressuring larger economies with heavy debt burdens. Meanwhile, **rising bond yields** are no longer confined to weaker states; they are affecting systemically important borrowers across Europe and thus reshaping the euro-zone risk map.



At the core of this shift is the interaction between energy shocks and sovereign financing. Higher oil and gas prices are sustaining inflation, limiting how quickly central banks can ease policy and keeping borrowing costs elevated. For BIF economies, this means rising yields and increased debt-servicing costs at a time of limited fiscal flexibility. Structural weaknesses – slow growth in Italy, fiscal pressures in France and post-Brexit adjustment in the U.K. – only amplify these risks.

The dynamic is, notably, linked to Germany. German bonds are still the benchmark for European borrowing, so **rising German yields** are transmitted across the region, pushing up financing costs in France and Italy. Yet Germany itself faces weaker growth and persistent energy-driven inflation, so it no longer stabilizes the Continent as it once did. Instead, it is increasingly the vehicle through which tighter financial conditions spread.

The result is a vicious cycle: Higher yields push governments toward fiscal tightening, which in turn weighs on growth and raises political risks. The shift from “periphery risk” to “core-plus risk” matters because these economies are systemically important: Stress in BIF countries has broader implications for European financial stability and policy coordination than does stress in other regions.

For international businesses, the impact is immediate. Higher yields tighten financial conditions, raise the cost of capital and constrain public spending, affecting demand and increasing policy uncertainty. Exposure to European infrastructure, energy-intensive industries and public procurement becomes more sensitive to fiscal adjustments.

Even so, opportunities are emerging. Widening yield differentials create selective entry points in debt markets, while fiscal constraints are likely to accelerate public-private partnerships and privatization, particularly in infrastructure, energy and defense. Continued energy volatility also reinforces investment in diversification, efficiency and resilience.

More broadly, the rise of BIF signals a structural redistribution of risk in Europe from the periphery to core economies with greater systemic weight. For investors, the key is not necessarily to avoid exposure but to position themselves within this shift, paying particular attention to sectors aligned with fiscal priorities, energy transition and strategic autonomy. As with other areas of economic change, resilience is becoming the central organizing principle.

The AI Talent Race

By Ronan Wordsworth

Summary: A credible reverse brain drain toward China seems to be emerging, gradually weakening a key U.S. advantage in attracting top AI talent.

The AI race will be won or lost by hardware and talent. For decades, the U.S. led in both, but others are starting to catch up. The rise of China as a genuine AI talent destination is therefore a potentially important structural shift.

Many of China's top engineering graduates have tended to follow a predictable pattern: graduate from elite domestic universities, pursue a doctorate in the U.S., then start a career in Silicon Valley or a U.S. research lab. Yet growing numbers of Chinese engineers and researchers are **returning home after years in the U.S.**, attracted by expanding opportunities, better pay packages, faster promotion pathways and the prestige of working in a nationally strategic sector.

In fact, fewer young Chinese engineers appear eager to leave in the first place. Reports suggest that the share of top graduates applying for U.S. Ph.D. programs has fallen sharply from previous highs. Whether every figure varies by year or department is less important than the direction of travel: The U.S. is **no longer the automatic destination** it once was for China's best technical minds.

This indicates that Chinese firms are now capable of competing for frontier talent directly. Companies such as ByteDance, Alibaba, Huawei and emerging model developers can offer globally competitive compensation, vast user bases, abundant proprietary data and leadership roles difficult to secure in crowded U.S. hierarchies. Some recent high-profile moves from U.S. firms to Chinese AI companies reflect the seriousness of this growing competition.

It's not just that China is becoming more attractive; it's that the U.S. is becoming less so. Visa uncertainty, tighter scrutiny of Chinese researchers, export-control sensitivities and broader geopolitical tensions all weigh on Chinese-born engineers who want to build a long-term career in the United States. None of these alone overturns U.S. leadership, but together they **reduce the seamless attractiveness America once offered.**

These developments matter because AI leadership is cumulative. Talent attracts capital and investment, which brings in computation power. Successful ecosystems then attract more talent. The U.S. is still a leader in frontier labs, venture finance and advanced semiconductors, with firms like Nvidia, OpenAI and Google DeepMind holding major advantages. China is simply narrowing the gap through domestic Huawei chips, aggressive model pricing and an

increasingly self-sustaining talent base.

To be sure, the U.S. has not lost its edge, nor will its talent pool suddenly dry up overnight. But talent acquisition has long been one of America's greatest structural strengths, and it's starting to face stiffer competition. For international businesses and investors, this creates a situation in which access is expanded to alternative innovation hubs, partnerships and scalable markets, even as there is more exposure to geopolitical tension, inconsistent regulatory environments and technological fragmentation. In a long competition, managing this balance may prove as consequential as any single chip export ban or model release.

Bad News and Good News for the Russian Economy

By Ekaterina Zolotova

Summary: Despite five years of war in Ukraine and non-stop sanctions, the Russian economy has avoided collapse. But isolation, rising inflation, tight central bank policies, insufficient import substitution and ongoing Ukrainian attacks have taken a toll on the economy – and on public opinion.

The oil and gas squeeze brought on by the Iran war has allowed Moscow to increase energy exports. (Eased sanctions pressure has helped too.) But this has not been enough to jump-start a slowed economy. At an economic meeting on April 15, Russian President Vladimir Putin **announced** that the country's GDP had declined for the second consecutive month and demanded that economic officials urgently restart growth. Later, the Ministry of Economic Development **laid out the economy's many challenges**: a strong ruble, high interest rates, labor shortages, budget constraints and exhausted reserves.

Added to these challenges are the persistent structural problems that existed in Russia even before sanctions. Capital **never stopped leaving the country**, now going to places like Dubai, Hong Kong and Tel Aviv rather than traditional markets like Europe. Capital continues to seek outlets in international markets despite a chronic domestic investment deficit.

Moscow had hoped to independently build up its own technology sector, but brain drain and other systemic issues have prevented it from doing so. By early 2026, for example, domestic computer-aided design software systems **accounted for less than a third of the market**; pirated foreign software accounted for the rest. The issue is particularly pronounced in design software of composite products in the aerospace industry.

Tax changes to which businesses are forced to adapt, price increases and other unpopular measures like internet and app restrictions have hurt **Putin's approval ratings** even in pro-government publications. Amid increasingly alarming economic data, opposition parties are

starting to voice their concerns. The leader of the Communist Party of Russia **warned** the State Duma on April 22 that the country would be at risk of revolution if authorities did not halt the economic collapse.

Hyperbole aside, several indicators suggest that Russia retains at least some of its economic strength. The defense industry continues to fuel production, and the central bank notes no sharp rise in unemployment or decline in household income. For international businesses, this suggests the continued potential of Russia as a market with high demand for foreign companies' products, particularly technological ones. While sanctions and the complexity of financial transactions still make it hard to do business in Russia, poor economic trends and rising public discontent could be the first sign that the Kremlin is finally feeling the economic costs of the war.

[Return to Index](#)

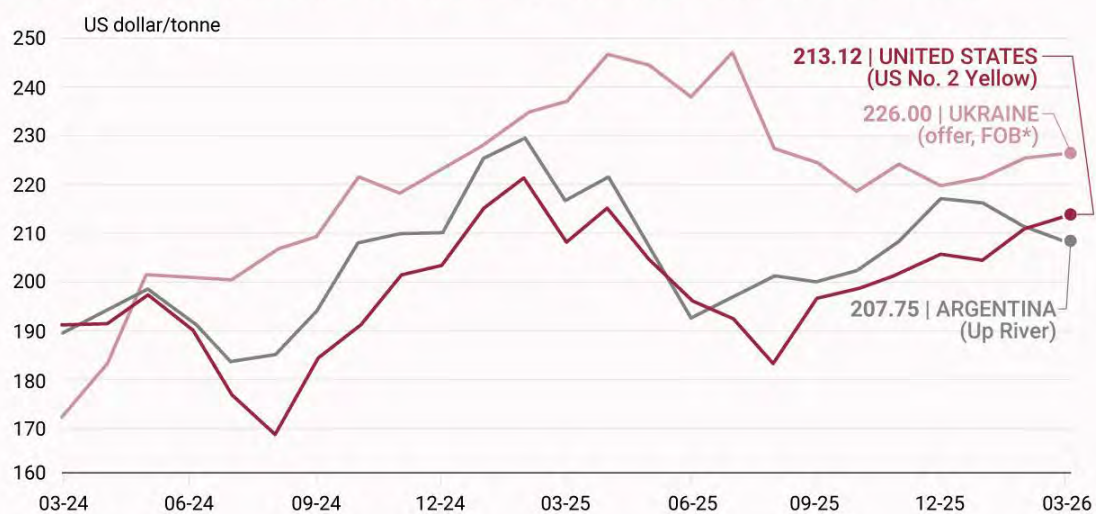
Feature

Is There an Impending Food Crisis?

By Antonia Colibasanu

The war in Iran has the whole world fretting about a pending global energy crisis. And rightly so; some 20 percent of all exported oil and gas flows through the Strait of Hormuz, over which Iran has near-total control. But the repercussions extend well beyond energy markets. Inflation has already taken hold in numerous countries and over the longer term could create serious food security risks. Food scarcity is both cause and consequence of economic and political instability.

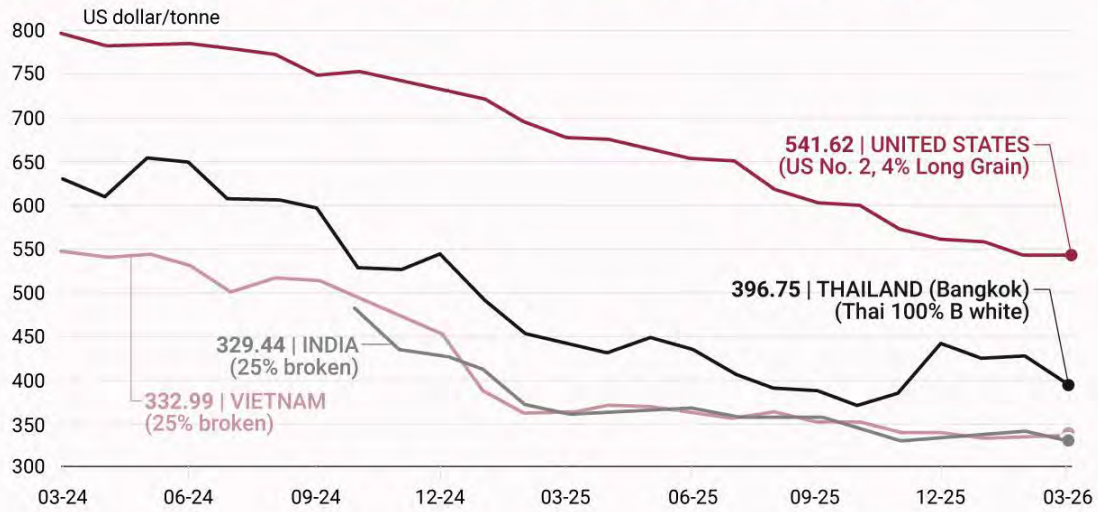
FOOD PRICE MONITORING & ANALYSIS | INTERNATIONAL MAIZE PRICES



*FOB = Freight on Board

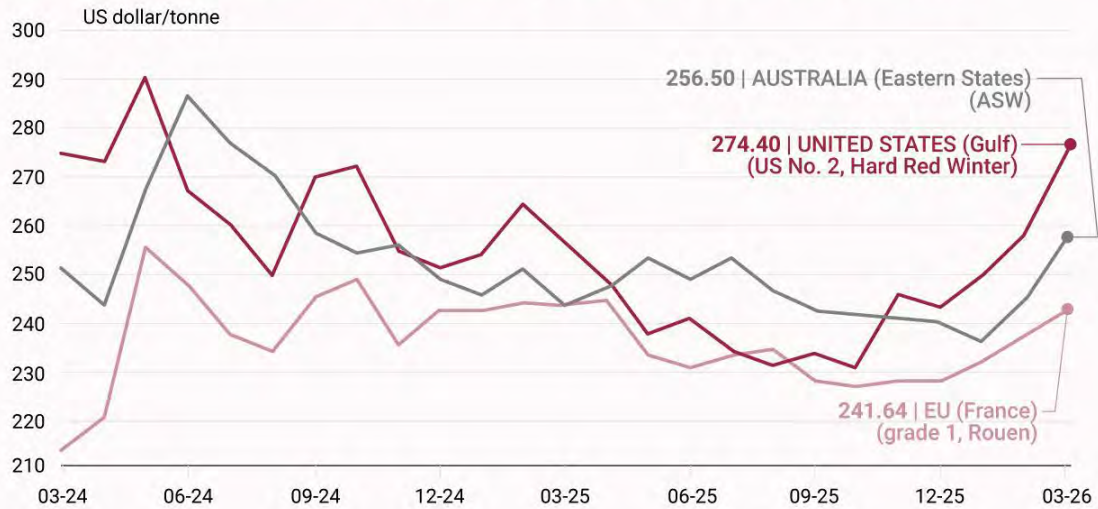
Source: Food and Agriculture Organization of the United Nations

FOOD PRICE MONITORING & ANALYSIS | INTERNATIONAL RICE PRICES



Source: Food and Agriculture Organization of the United Nations

FOOD PRICE MONITORING & ANALYSIS | INTERNATIONAL WHEAT PRICES



Source: Food and Agriculture Organization of the United Nations

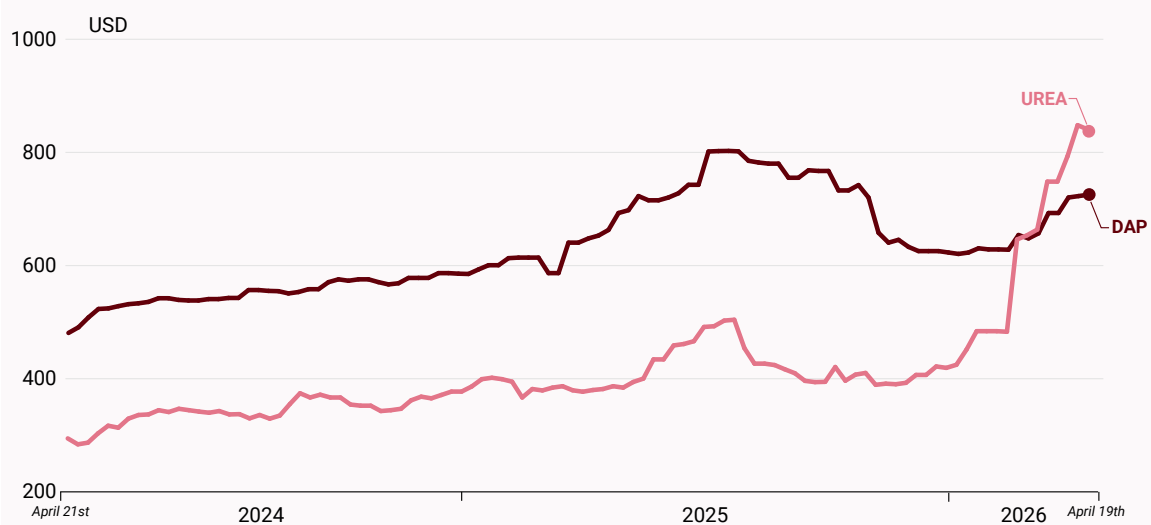
Disruptions

Shocks to the global economy are shaped primarily by geography, and the current one is no different. The Strait of Hormuz is the **world's most important energy choke point**, with nearly 15 million barrels of crude oil per day and more than 112 billion cubic meters of liquefied natural gas passing through it in 2025. Most of these exports, including some 90 percent of LNG, are destined for Asia. Europe's direct exposure is smaller but still significant, as Hormuz-transited LNG accounts for roughly 7 percent of Europe's total LNG imports.

Although bypass routes exist, they cannot entirely replace Hormuz. Alternate crude export capacity is estimated at only around 3.5 million-5.5 million bpd, while spare Saudi and Emirati pipeline capacity is closer to 2.6 million bpd. This means that even partial restrictions on the Strait of Hormuz quickly raise the cost of diesel, bunker fuel, fertilizer, refrigeration and food transportation. This is why disruption in the Gulf creates inflation, logistics issues and supply chain hiccups far beyond the region.

It's difficult to overstate how important the strait is for fertilizer. From 2023 to 2025, the Gulf was the world's largest regional exporter of urea and ammonia and the second-largest exporter of diammonium and monoammonium phosphate (DAP and MAP, respectively). The region accounted for 29 percent of global ammonia exports, 36 percent of urea exports, 26 percent of DAP exports, 13 percent of MAP exports and close to half of globally traded sulfur. Around one-third of global seaborne fertilizer trade passes through Hormuz, with urea accounting for roughly two-thirds of Gulf fertilizer exports. Food shocks, then, will be strongest

FERTILIZER PRICES FOR DAP AND UREA

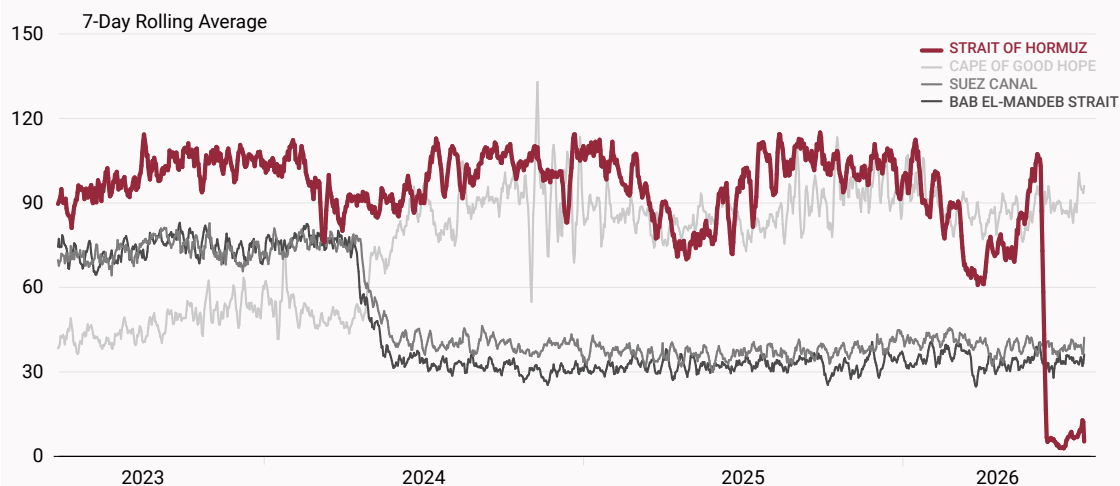


Source: Investing.com

in regions that rely heavily on imported fertilizer, subsidized agricultural systems and nitrogen-intensive crops or feed production. Rising fertilizer costs feed directly into lower yields, higher production costs and more expensive food imports.

Moreover, disruption in the strait has disrupted shipping logistics dramatically. Before the war, attacks from Yemeni Houthi rebels in 2023 had brought traffic in the Suez Canal and the Red Sea to a crawl, and it has yet to return to pre-2023 levels. (In the canal, tonnage is still down roughly 70 percent.) This means that international carriers were already using longer routes around the Cape of Good Hope, beset by tighter vessel availability and racked by higher freight costs. War-risk insurance has also surged sharply – in some cases by more than 1,000 percent – while risky maritime zones now extend beyond Hormuz into the Red Sea, the Gulf of Aden and the Arabian Sea. As a result, the immediate effect on food markets is likely to be strongest in perishable goods, animal products, feed imports and fertilizer procurement cycles rather than in grain volumes alone.

PORT TRAFFIC JANUARY 2023 - APRIL 2026



Source: Port Watch

The situation in the Black Sea, meanwhile, is amplifying the effects. North Africa, the Levant and parts of Europe still depend on wheat and maize exports through the Black Sea. If disruption in the Hormuz Strait overlaps with continued frictions in the Red Sea, the Suez Canal and the Black Sea, the global system loses much of its redundancy. Gulf fertilizer becomes more expensive, shipping routes become longer and costlier, and Black Sea grain becomes more politically sensitive. Together, these could turn a temporary inflation shock into a more serious food security crisis.

Regional Assessment

Asia

Asia, particularly China and Southeast Asia, produces a lot of food but depends heavily on energy and fertilizer exports through the Strait of Hormuz. **China** is largely self-sufficient in staples such as corn and wheat, with projected 2026-27 output of around 305 million metric tons and 140 million metric tons, respectively, while imports are expected to remain relatively low at around 8 million metric tons of corn and 6 million metric tons of wheat. Soybeans are the main exception: China is projected to import around 106 million-108 million metric tons in 2025-26 and 2026-27, far above domestic production levels, leaving soybeans, tofu, animal feed, pork, beef and fish much more exposed than rice.

Southeast Asia is a major producer of rice, sugar and fish, while India is expected to harvest a record rice crop. Thailand remains an important supplier of both rice and sugar. However, the region's biggest short-term vulnerability is not a shortage of staple foods but the rising cost of a highly energy- and fertilizer-intensive food system. Around 84 percent of crude oil and 83 percent of LNG passing through the Strait of Hormuz go to Asian markets, and Hormuz-linked LNG accounts for more than a quarter of Asia's total LNG imports. China, India, Japan and South Korea are the largest recipients of these flows, while countries such as Bangladesh, India and Pakistan depend especially heavily on LNG shipped through the strait.

Overall, Asia's short-term risk is medium-high, but it is particularly high in South Asia and more moderate in China. The main pressure point is likely to be animal feed and protein supply rather than basic calorie availability. However, if fertilizer shortages persist long enough to affect the next crop cycle, that could easily change.

Europe

Europe has a large **agricultural production base** but meaningful exposure in selected import categories and fragile logistics. EU cereal production reached around 257.7 million metric tons in 2024, including 111.6 million metric tons of common wheat and 29.1 million metric tons of oilseeds. (Notably, overall cereal output was down more than 5 percent year on year.) The largest cereal producers are France, Germany, Poland and Romania.

The EU is therefore unlikely to face a major shortage of staple foods, but it remains **dependent on imports** such as coffee, cocoa, tea, spices, fruit, edible oils and feed products. In 2025, coffee, tea, cocoa and spices became the EU's largest agrifood import category by value, with Brazil, the U.K., the U.S., Ukraine, Vietnam and Ivory Coast among the most important suppliers. Europe's main vulnerability comes less from food shortages than from

cost pass-through. Although Europe absorbs a smaller share of Hormuz oil and LNG flows compared with Asia, this is still enough to influence gas, fertilizer and transport costs across the Continent. The Suez route also remains well below normal capacity. As a result, Europe is likely to experience higher prices for coffee, cocoa, fruit, edible oils, pork, feed grains and horticultural products rather than outright shortages. A prolonged natural gas shock would also increase pressure on domestic fertilizer production, which is already under strain from high energy prices and the EU's long-term target of reducing fertilizer use.

For this reason, Europe's overall food security risk remains moderate: Food will be available, but costs are likely to rise substantially in agricultural inputs and imported consumer products.

Russia and Central Asia

Russia and the countries of Central Asia comprise highly self-sufficient producers and more import-dependent economies. **Russia** is expected to harvest around 139 million metric tons of grain in 2025, including roughly 91 million metric tons of wheat, and remains largely self-sufficient in grain and meat. Although the country is still more dependent on certain goods such as dairy, fruit, vegetables, potatoes and agricultural inputs, it is one of the least exposed major regions to ongoing disruptions. In fact, Russia may benefit from higher global grain and fertilizer prices, so long as Black Sea export routes remain intact. Even so, higher insurance, shipping and input costs, not to mention tighter export controls, could raise domestic prices for fruit, vegetables, imported genetics and specialized agricultural products. Recent droughts in key grain regions such as Rostov also show that Russia's food position remains vulnerable even if overall production stays high.

Central Asia is more resilient than the Middle East or Africa, but it is not immune to disruption. Kazakhstan is still the region's main grain surplus producer, while Tajikistan, Kyrgyzstan and Uzbekistan still rely on imports in at least one major category of goods. **Tajikistan**, for example, imports around 1 million metric tons of wheat per year and remains heavily dependent on imported vegetable oil and sugar. Governments in the region are trying to strengthen resilience through transport subsidies, logistics support, regional food security plans and improved border infrastructure. However, if sugar, edible oils or transport costs rise further, the more import-dependent southern states are likely to face more pressure.

Overall, Russia faces low-to-medium risk and may even benefit commercially, while Central Asia faces medium risk, rising toward medium-high in the more import-dependent economies.

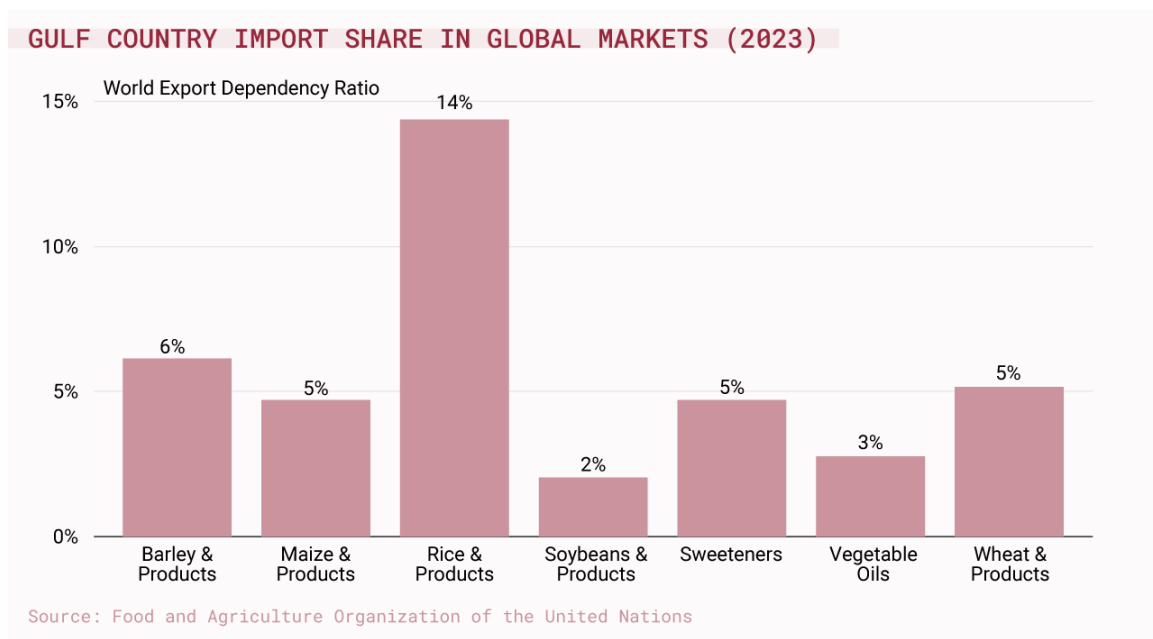
Middle East

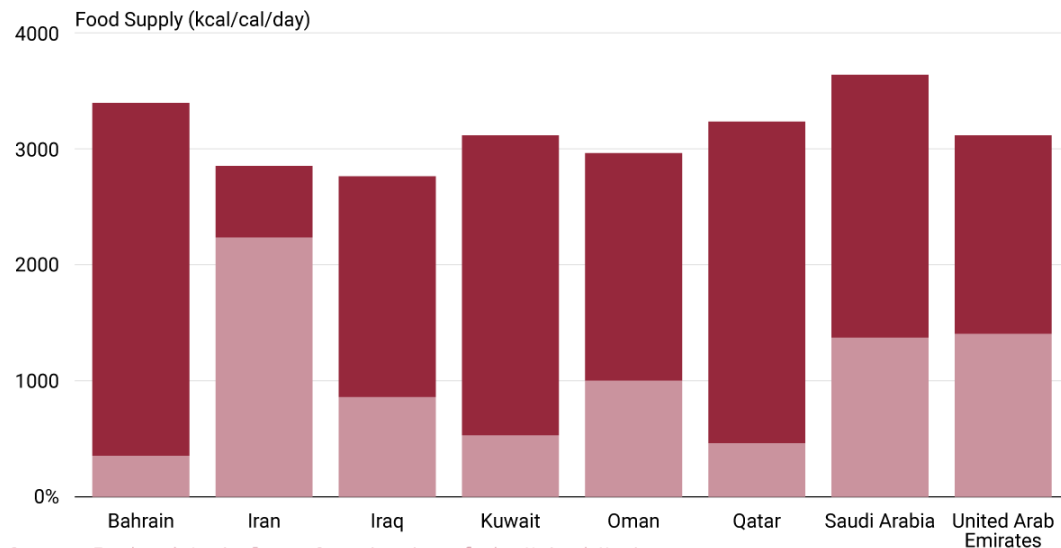
The Middle East is the region where food dependence and route dependence overlap most directly. **Saudi Arabia** is a major importer of staple grains and animal feed, with wheat imports expected at around 3.5 million metric tons in 2026-27, barley imports above 4 million metric tons and corn imports approaching 4.7 million metric tons. The country relies heavily on seaborne procurement through its ports and grain tenders to secure supply.

Jordan is even more exposed. It imports more than 95 percent of its wheat and barley demand, with wheat imports projected at around 1.15 million metric tons and barley imports at roughly 900,000 metric tons. It maintains strategic reserves covering around eight months of wheat demand and close to 10 months of barley demand but remains highly dependent on uninterrupted trade flows through Aqaba and regional shipping routes.

Iran also depends on imports for wheat, maize, rice and vegetable oils, while the Gulf monarchies rely heavily on imported grains, oilseeds, feed products and edible oils. This means the war creates both an internal and an external shock: Internally, food-importing countries in the region face higher freight, insurance and subsidy costs, while externally, the Gulf is one of the world’s largest exporters of fertilizer products such as urea, ammonia, DAP, MAP and sulfur. Wheat and barley are the most immediately strategic products, but poultry feed, dairy powder, vegetable oils, sesame oil and refrigerated fish are also highly exposed.

Overall, the Middle East faces high short-term risk – particularly in the more import-dependent and fiscally weaker states, and somewhat lower but still significant in the wealthier



VULNERABILITY OF PERSIAN GULF STATES TO IMPORTED FOOD (2023)

Gulf countries. The main pressure point is likely to be staple grain imports, especially wheat and barley, since financial reserves can offset shortages in volume but not the rising cost of procurement, shipping and subsidies.

Africa

Africa is extremely vulnerable to supply shocks because it is exposed both as a major food importer and as a fertilizer-dependent producer. On the consumer side, North Africa and parts of West Africa remain heavily dependent on imported wheat and rice. Egypt is expected to import around 12.5 million-12.7 million metric tons of wheat in 2026-27, Algeria around 8 million metric tons and Nigeria more than 7 million metric tons. Ivory Coast is also projected to import around 1.75 million metric tons of rice despite rising domestic production. This means wheat is the most exposed staple in North Africa and urban West Africa, while rice is the most exposed throughout much of rural West Africa.

Fertilizer is the most important production-side vulnerability. Gulf-origin fertilizer accounts for more than half of Sudan's seaborne fertilizer imports, around one-third of Tanzania's, and roughly one-quarter of Kenya's and Somalia's. Ethiopia imports more than 90 percent of its nitrogen fertilizer needs, much of it from Gulf suppliers. Because many African countries remain highly dependent on imported fertilizers, any rise in energy, freight or fertilizer prices can quickly reduce usage rates and lower crop yields. Similar disruptions during the Russia-Ukraine war led to a sharp fall in fertilizer use across parts of Africa.

Overall, the continent faces high short-term risk for bread and rice affordability, particularly in

countries that rely heavily on imports and food subsidies. Over the medium term, the bigger threat is declining crop yields if fertilizer applications fall during the 2026 planting season. Wheat, rice and maize are therefore the most exposed products, while the region's main priorities are likely to be import-finance support, fertilizer corridor protection, targeted food subsidies and faster customs clearance for staple food and agricultural input shipments.

Latin America and the Caribbean

Latin America and the Caribbean face very different levels of risk. South America remains one of the world's main agricultural producers. Brazil is expected to harvest a record soybean crop of around 180 million metric tons in 2025-26 and export roughly 115 million metric tons. This means the region is not especially vulnerable to shortages in grain or oilseeds. Instead, its main exposure comes from fertilizer, fuel and shipping costs. Brazil imports around 85 percent of its fertilizer needs, and fertilizer prices have already risen sharply, raising production costs for soybeans, corn, rice and wheat. Because Brazil is such a large exporter of soybeans, animal feed, sugar and edible oils, higher production costs there can quickly feed into global prices. Notably, higher energy prices are likely to raise sugar prices because Brazilian producers have a stronger incentive to divert sugarcane toward ethanol production.

Central America and Mexico are in moderately worse shape. Mexico depends heavily on imported feed grains, wheat, rice and processed foods. Corn imports are projected at around 26 million metric tons and rice imports close to 900,000 metric tons.

The Caribbean is far more vulnerable because it has a small production base, high food import dependence and high exposure to freight costs. Many Caribbean countries import between 80 percent and 90 percent of their food, making them highly sensitive to rising shipping costs, delays and cold chain disruptions. The main effect of the Iran war is therefore likely to be higher landed food costs (the total cost of getting a product from the exporter to the final destination market), weaker shipping reliability and faster retail inflation.

Overall, Latin America faces medium short-term risk in South America, medium-high risk in Central America and Mexico, and high risk in the Caribbean because of its greater dependence on imported food and shipping.

North America

The U.S. and Canada face relatively little direct risk of physical food shortages because both countries are major agricultural producers. In 2025, the U.S. produced around 4.26 billion bushels of soybeans, 207 million hundredweight of rice, more than 35 million tons of sugarcane and an equal amount of sugar beets, and over 400 million hundredweight of potatoes. U.S. soybean processing is also expected to reach a record high in 2025-26. Canada, mean-

while, is projected to produce around 30 million metric tons of wheat and more than 7 million metric tons of durum wheat, supported by relatively strong grain stocks. These production levels provide a substantial buffer for domestic supplies of wheat, soy-based products, meat and dairy.

North America's main vulnerability is therefore cost rather than volume. The U.S. has limited direct dependence on Persian Gulf oil. Imports through Hormuz account for only a small share of total U.S. petroleum consumption. Fertilizer exposure is a different story. The U.S. imports large quantities of ammonia, sulfuric acid, urea and DAP, including some products linked to Gulf suppliers. Rising fertilizer and fuel prices can therefore increase costs for farming, food processing, transport and livestock feed.

Overall, North America faces low-to-medium short-term risk for consumers because food availability is likely to remain stable. The bigger pressure is on farm incomes, animal feed supply chains and fertilizer-intensive crops, particularly in the U.S. corn belt if high nitrogen prices continue through future planting cycles.

Scenarios

The impact on food markets will depend largely on the duration and severity of the conflict. In the short term, the main effects are likely to come through higher shipping, fuel, fertilizer and insurance costs. Over time, though, the focus shifts from logistics to agricultural production itself, particularly if disruption lasts long enough to affect fertilizer procurement and planting cycles. Weather is also an important variable. Although advances in technology, irrigation, seed quality and storage have made food systems more resilient to droughts and poor harvests, adverse weather can still amplify shortages and price spikes when markets are already under pressure.

The following scenarios lay out how risks evolve under rapid deescalation, prolonged disruption and longer-term structural change.

Scenario 1: The Short Term

If the conflict deescalates rapidly and shipping through Hormuz resumes within weeks, there will be temporary spikes in freight, insurance, fuel and fertilizer costs rather than a prolonged supply shock. Food importers would still face higher landed prices, some tender delays and short-term pressure on processing and retail margins, but strategic reserves and existing inventories would be enough to prevent major shortages. In this scenario, the biggest consequence is inflationary rather than structural.

If the conflict doesn't deescalate but shipping gradually resumes under costly escort and insurance arrangements, the main effects will be higher landed prices, tender delays, reserve drawdowns and margin compression for processors, feed users and retailers. This is the present baseline scenario, and is already happening in certain regions.

Scenario 2: The Medium Term

If disruption lasts long enough to affect fertilizer procurement and planting windows, crop yields will be affected. Africa, South Asia and Brazil will become the regions to watch because fertilizer affordability there affects rice, maize, wheat, soybeans and feed directly, while sugar markets tighten if Brazilian cane is increasingly diverted toward ethanol. This is the scenario in which today's input shock translates into late 2026 food inflation and tighter 2027 stocks.

Scenario 3: The Long Term

If the war does not deescalate in 2026, structural changes can be expected, including reserve building, greater supplier diversification, stronger domestic fertilizer programs, more use of coal-based nitrogen in Asia, and a permanently higher-cost global food chain overall.

Forecast

The most important conclusion is that the war is reshaping the food system – first through costs, then through inputs, and only later through yields. This means that governments and firms still have time to prevent the current shock from turning into a broader food security crisis.


The likely outcome is not a generalized food shortage but a prolonged period of higher costs and greater volatility throughout the global food system. In the short term, we expect there to be inflationary pressure: higher freight, insurance, fuel and fertilizer costs will raise landed prices, pressure processors and retailers, and increase the fiscal burden on the governments of import-dependent countries. The immediate risks are greatest in the Middle East, Africa and South Asia, where food imports, fertilizer dependence and limited fiscal space overlap.

The more serious risk lies in the medium term. If disruption persists long enough to affect fertilizer procurement and planting cycles, the problem becomes much more dire. Lower fertilizer use would reduce yields in key producing regions such as South Asia, Africa and Brazil, creating tighter supplies of wheat, rice, maize, soybeans, sugar and animal feed in late 2026 and into 2027. Weather shocks could make this worse.

Ultimately, the world is unlikely to experience a cereal crisis as it did in 2007-08 so long as the conflict ends in 2026 and so long as the weather cooperates. Large wheat and rice reserves, especially in Asia, should insulate many consumers from shortages. However, protein, feed, fertilizer-intensive crops and imported food products are likely to remain vulnerable. Even if the conflict eases, the longer-term legacy will be a more expensive and less efficient global food system.

[Return to Index](#)

TALK TO US



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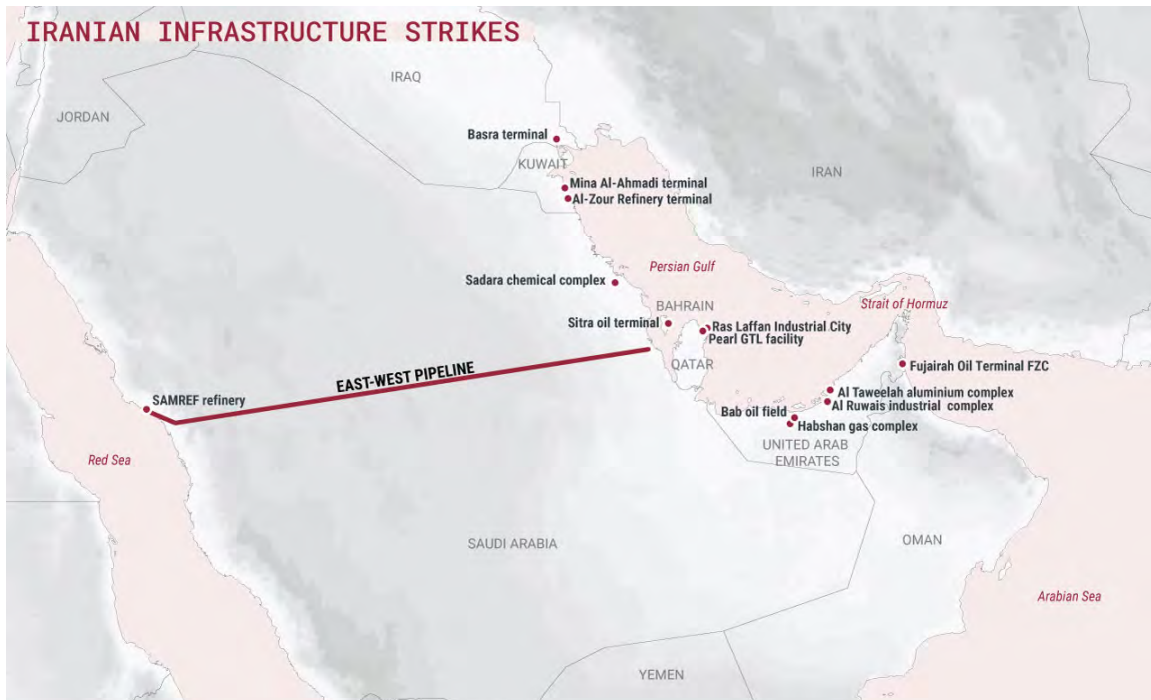
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Repercussions By Region

The Iran war is a significant event that has affected the entire world. In this section, we will answer the following questions about each region:

- 1.** What is the most important country in the region, and how has it been affected by the war in Iran?
- 2.** What are the region's economic dependencies, and how do they affect overall stability?
- 3.** Which countries were hit hardest, and how have they responded?
- 4.** Which industry is the most relevant to the region's economic health, and how has it reacted to the war?



Middle East

1 • The war in Iran has sent a shock throughout the Middle East. Its effects vary by exposure to affected energy infrastructure, trade routes and financial integration, but it shows a clear hierarchy of resilience and vulnerability. The countries to watch most closely are Saudi Arabia, the United Arab Emirates and Qatar, but recent developments – namely, the UAE’s departure from OPEC – have made this assessment even more acute.

The UAE’s **decision on April 28 to leave the bloc** marks a major turning point and reflects growing divergences with Saudi Arabia over production strategy and geopolitical priorities. Its departure gives it greater autonomy to increase output and pursue market share, potentially weakening OPEC discipline and raising the risk of future price competition – even a price war – once current supply disruptions ease. In the short term, the impact on prices may be muted due to ongoing constraints linked to the conflict and disruptions in the Strait of Hormuz, but structurally, the move **signals** a fragmentation of producer coordination and a shift toward more competitive behavior.

The timing of the decision can be understood through market conditions and national strategy. In the current environment, oil prices are unlikely to collapse in the short term, giving Abu Dhabi room to act without immediately undermining its revenue base. This reduces the risks traditionally associated with breaking from coordinated production frameworks. At the same time, the move aligns with the UAE’s long-standing objective of diversifying its economy and

maximizing production capacity on its own terms. However, the UAE is more exposed than most Gulf producers to second-order effects of instability: As a global logistics and financial hub, Dubai is highly sensitive to disruptions in trade flows, rising insurance and shipping costs, and potential capital flight. While higher hydrocarbon prices benefit Abu Dhabi, the country's broader geoeconomic model is under increasing strain from regional uncertainty and the risk of being drawn into tensions. In that sense, exiting OPEC is not only about oil policy but also about preserving strategic flexibility in an increasingly volatile regional and global environment.

For Saudi Arabia, the most important producer in OPEC, strategy is shaped by its market power and domestic agenda. In the short term, elevated oil prices provide the state with significant revenue to sustain spending. However, this strength masks a deeper structural exposure: the kingdom remains highly dependent on oil exports while simultaneously relying on imported capital goods, technology and foreign expertise. As a result, it is particularly sensitive to global volatility. Moreover, its reliance on foreign direct investment introduces another layer of vulnerability: as regional risk perceptions increase, so do risk premiums, potentially slowing capital inflows even as oil revenues rise. This creates a **"dual-speed" dynamic in the Saudi economy** – fiscally robust on the back of hydrocarbons, yet increasingly constrained by investment sensitivity – making its continued coordination within OPEC both a stabilizing force for markets and a necessity for managing its own economic transition.

Qatar is in a good position within the current energy landscape. Its role as the world's leading exporter of liquefied natural gas makes it indispensable to both European and Asian markets in search of supply security. Elevated demand and persistent supply fears strengthen Doha's fiscal position and expand its diplomatic leverage, allowing it to deepen long-term contracts and strategic partnerships. However, Qatar's hosting of major U.S. military assets increases its exposure in a context of regional escalation, potentially making it a target. Even so, this vulnerability is mitigated by its parallel role as a diplomatic intermediary, which enhances its strategic value to multiple actors. As a result, Qatar combines strong short-term gains from the crisis with a nuanced risk profile, balancing heightened geopolitical relevance with the need to carefully manage its security exposure.

2. The region's economic dependencies are self-evident, but importantly, energy exports remain relatively intact. Key disruptions include rises in logistics friction, maritime risk premiums and supply chain redundancy costs. The Gulf Cooperation Council's integration into global trade and investment systems is now operating under a persistent "security surcharge," reflected in higher insurance costs, rerouting of shipping and accelerated militarization of key corridors.

3. Put simply, no country has been left unmarked. In Saudi Arabia, the result has been the securitization of energy infrastructure and export corridors. Oil exports remain stable, but vulnerability to drone and missile threats has pushed Riyadh to deepen air defense integration with the U.S. and expand layered protection of eastern oil facilities. It has also diversified export routing resilience through Red Sea and Mediterranean-linked logistics investments, aiming to reduce dependence on maritime choke points.

In the UAE, its departure from OPEC aside, the impact is most visible in logistics and financial routing. Jebel Ali and other hubs remain operational, but shipping insurance premiums and rerouting around the Red Sea have increased transaction costs. The UAE has responded by expanding redundancy in port capacity, strengthening maritime surveillance and accelerating “dual-corridor” trade strategies linking both Indian Ocean and Mediterranean routes.

In Qatar, LNG exports remain structurally resilient, but maritime security risks in the Gulf and the Arabian Sea have raised the geopolitical cost of energy transport. Doha has expanded its mediation role, using diplomatic engagement as a stabilizing instrument while reinforcing protection of Ras Laffan export infrastructure.

In Kuwait, the effects are more indirect: higher import costs, increased shipping insurance and exposure to Gulf maritime volatility. Kuwait has responded conservatively, establishing fiscal buffering and maintaining a low-profile security posture while relying on external guarantees for deterrence.

Bahrain is among the most exposed due to its hosting of U.S. naval assets. This has increased its visibility in regional escalation scenarios, prompting enhanced base protection measures and tighter integration with U.S. naval coordination frameworks. Economically, it remains highly sensitive to investor sentiment and regional risk repricing.

Finally, Oman occupies a structurally pivotal position at the Strait of Hormuz. While it benefits from its mediation role and geographic centrality, it is directly exposed to disruption in maritime traffic. Muscat has responded by reinforcing its neutral diplomatic posture, expanding quiet engagement channels with Iran and prioritizing continuity of maritime passage as a core national security objective.

4. A critical industry-level consequence of the war is the change it has wrought in oil and LNG export logistics around the Strait of Hormuz. For Saudi Arabia, the system has shifted decisively toward maximizing use of the east-west pipeline to Yanbu on the Red Sea,

which bypasses Hormuz. However, rerouting has introduced a second-order vulnerability: exposure to Red Sea instability and potential Houthi disruption of shipping lanes near Bab el-Mandeb. Saudi Arabia's response has been to treat its export system as a dual choke point structure – Hormuz in the east, Red Sea in the west – requiring parallel security investments, convoy insurance mechanisms and expanded storage buffers to maintain export continuity.

The UAE has leaned heavily on its Fujairah export system on the Gulf of Oman, which allows crude to bypass the Strait of Hormuz entirely. This has proved to be the most geopolitically valuable asset in the UAE's energy logistics architecture because it preserves partial export continuity even under Gulf maritime tension. Nonetheless, higher insurance premiums and rerouting of global shipping traffic continue to affect the UAE's broader logistics and reexport ecosystem.

For Qatar, the war has underscored structural LNG exposure. With most liquefied natural gas exports dependent on shipping through the Strait of Hormuz, Qatar faces persistent increases in freight costs, longer delivery cycles and heightened reliance on maritime security assurances. Unlike Saudi Arabia and the UAE, Qatar lacks meaningful pipeline or overland export alternatives, making its LNG system fundamentally more sensitive to sustained maritime disruption.

Kuwait's structural constraint is absolute: As a cul-de-sac Gulf exporter with no bypass infrastructure, Kuwait remains fully dependent on Hormuz for crude exports. This creates a persistent vulnerability to insurance shocks, shipping delays and worst-case blockade scenarios, forcing reliance on stockpiling and external security guarantees rather than logistical adaptation.

Overall, the war is accelerating a shift from efficiency to resilience across the Gulf. This necessarily entails structural changes and transportation redundancies that redistribute exposure across multiple corridors with distinct threat profiles. More broadly, it is triggering a reassessment of the strategic durability of GCC financial and logistics hubs such as Dubai, Abu Dhabi and Manama. These centers were built on assumptions of regional insulation and predictable maritime security; the fact that direct Iranian-linked strikes and escalation pressures have now materialized inside the GCC strategic envelope fundamentally alters risk perception. As a result, their future competitiveness will depend not only on efficiency and connectivity but also on whether they can function as financial hubs under conditions of sustained regional militarized risk rather than assumed stability.

Europe

1 • The most important policy coordinator in Europe is still the European Union, but the most important national economy inside the EU is Germany – the bloc’s industrial core, its largest economy and the main transmission channel through which energy and supply shocks spread into the wider economies. The war has hit Europe less through direct trade with Iran and more through inflation of imported energy, shipping risk, tighter financial conditions and industrial input costs. The European Central Bank now explicitly treats the war as a downside risk to euro-area growth and an upside risk to inflation. It also notes tighter financial conditions, wider corporate spreads, weaker equities in energy-reliant sectors and a euro depreciation tied partly to energy terms-of-trade shock.

When the war began, Europe was structurally exposed because the EU still imports about 57 percent of its energy needs. That means the Iran war has mainly been an external-price shock that has impacted growth, inflation and business confidence rather than a classic bilateral trade shock. The International Monetary Fund has cut euro-area growth, and Germany’s own 2026 forecast was trimmed to 0.8 percent as Berlin openly said the war had slowed the economy. France, another important economy, also lowered its 2026 growth outlook and raised inflation expectations.

Because countries have varying abilities to implement policies and provide cover for fiscal incentives, there are three European states that are in a particularly bad position. The U.K., Italy and France are sovereign borrowers that are now seen as the weakest links in the euro-U.K. debt complex following the repricing triggered by the war, higher energy prices and interest rate expectations.

2 • As for economic dependencies, the EU is no longer primarily dependent on Russia for oil and gas, but it remains deeply dependent on external suppliers. In 2025, Norway was the EU’s largest supplier of petroleum and pipeline gas, while the U.S. was the largest LNG supplier. That diversification improved resilience relative to 2022, but it did not remove vulnerability because a large share of global oil and LNG still depends on the Strait of Hormuz, and Europe remains exposed to world prices and refined product bottlenecks. This is why the European Commission has warned that prolonged disruption could create a durable energy shock, hinder gas storage refilling ahead of winter, and produce localized jet fuel shortages and broader industrial disruption.

3 • In terms of impact, affected countries fall into two broad groups. The first is the European core: Germany, Italy, the U.K. and France. Germany combines high industrial

exposure with weak preexisting growth. The chemical, manufacturing and transport sectors transmit energy costs broadly into the euro area, and Berlin has already introduced a temporary 1.6 billion euro (\$1.9 billion) fuel price relief package. Italy's refining and aviation systems are exposed to imported fuels, and Italy's energy debate has become more interventionist, with Eni publicly urging the EU to reconsider the timing of its moratorium on Russian gas because disruption in the Strait of Hormuz makes replacement harder. Italy also appears in the list of governments already using funding tools such as price caps or tax cuts to manage the fallout. The U.K. was hit mainly through higher oil and gas prices, which worsened inflation, delayed expected interest rate cuts, and led to one of the largest IMF growth downgrades among G7 economies because of its reliance on imported energy and global fuel markets. The crisis also exposed Britain's vulnerability to Gulf shipping disruptions, especially in aviation and household energy, while reigniting debate over North Sea drilling and renewables. France was affected by rising energy and transport costs, but it proved more resilient than Germany and the U.K. because its nuclear-heavy electricity system reduced direct exposure to imported gas. Paris became one of the more interventionist European capitals, backing targeted support for trucking, farming and transport sectors while also advocating stronger European naval and maritime security measures around Gulf shipping lanes. However, its weak debt position and upcoming elections suggest its relative stability is fragile.

The second group comprises the small, highly import-dependent states such as Malta, Cyprus and, to a lesser degree, Luxembourg. [Eurostat](#) shows energy import dependency rates of 98 percent for Malta and 88 percent for Cyprus. Their absolute size is small, but their vulnerability is acute because they have less room to absorb external fuel shocks and logistics disruption.

The parties that became most interventionist were essentially the EU institutions plus Germany and France, with Italy and some others close behind. At the EU level, Brussels implemented measures on temporary state aid flexibility for sectors hit by fuel and fertilizer costs; preparation of energy bill measures such as electricity tax cuts; and a more structural push toward electrification, gas storage coordination and clean energy investment. The commission has also stressed that relief should be targeted and temporary, not a repeat of the broad 2022 support.

Importantly, [European logistics systems have been affected only indirectly](#). Ports, for example, are up and running, but the supply lines feeding them have been rerouted, delayed or made more expensive. Within Europe, the most exposed ports are likely to be major refining and transshipment hubs such as the port of Rotterdam, the port of Antwerp-Bruges, the port of Piraeus and Mediterranean oil terminals in Italy and Spain, because they depend on steady tanker flows and on Asia-Europe container traffic moving through Suez.

4 • The industry that has been hit hardest is the **industrial base**, specifically the chemicals that make it hum. Industrial facilities depend on oil and gas both as energy and as feedstock. Companies such as BASF, Brenntag, Lanxess, Evonik, Wacker, EMS-Chemie and Sika have responded by raising prices in the hopes of protecting margins and passing costs downstream. The problem is that this only partly works because demand is weak and Asian counterparts are cost-competitive. In other words, the war did not create the industry's weakness, but it intensified an existing European competitiveness problem.

Another notable industry is aviation. **Europe's domestic refining capacity has fallen** by 16 per cent over the past 25 years, and it now depends heavily on imported jet fuel, much of it from the Gulf. Around 75 percent of Europe's jet fuel imports come from the Gulf, and the International Energy Agency has warned that Europe could face a shortage by June if replacement flows remain low.

The war in Iran has exposed the region's dependence on imported energy and vulnerable shipping routes. Germany, Italy, the U.K. and France are among the most economically exposed major countries. France and the EU institutions have been the most interventionist in terms of policy. The broader point is that Europe is dependent no longer on a single supplier but on a fragile global energy and logistics system that can still be disrupted by conflict in the Gulf.

Asia-Pacific

1 • The most important country in the Asia-Pacific is, of course, China, which showed a fair amount of resilience in the initial shock of the Iran war thanks to stockpiled energy and strong exports. However, the war has created instability through higher oil prices, supply chain disruptions and weaker global demand for exports. This fundamentally threatens its export-driven economy, so it could force governments to implement stimulus measures if conditions worsen. Early signs of strain are already visible: **Export growth dropped** sharply from 21.8 percent in the first two months of the year to just 2.5 percent in March, partly due to higher logistical costs and disrupted shipping. Also, while industrial output remains relatively strong, consumption has been weak, with **retail sales growth slowing** to 1.7 percent in March.

So far, China has leveraged the crisis to expand its influence, positioning itself as both a stabilizing force and a provider of energy and infrastructure solutions to Southeast Asia. Its efforts include deepening ties through alternative supply routes, investment in energy systems and diplomatic engagement. Southeast Asian countries, in contrast, have largely pursued reactive policies such as fuel subsidies, price controls and emergency demand management measures. While these steps help contain immediate social and political pressures,

they are expensive, and they do little to address structural vulnerabilities.

2. As for economic dependencies, China is fine in the short term. If the war continues, however, **China would be hit hard** because it relies heavily on imported energy and has major investments and trade ties in the Middle East. The war jeopardizes these flows, raises import costs and threatens its overseas investments, while also straining its export markets thanks to the global slowdown in demand. Although China's strong manufacturing base offers some resilience, the conflict ultimately amplifies both its strengths and its vulnerabilities, leaving its outlook for the medium term increasingly uncertain.

3. Rising oil and gas prices have increased production and transport costs across nearly every sector, while rerouted shipping and higher insurance premiums have slowed trade flows. These disruptions ripple outward: Manufacturing inputs arrive late or at higher cost, food systems are strained by more expensive fertilizer and logistics, and export competitiveness declines. And the uncoordinated response among Southeast Asian nations has only increased uncertainty. National governments have tended to act independently, often prioritizing short-term domestic stability over regional cooperation, which weakens regional cohesion and reduces the effectiveness of collective responses.

The countries most affected are those with high energy import dependence and limited buffers. The **Philippines** stands out due to its weak domestic energy base and relatively low reserves, forcing it into emergency measures as prices surged sharply. Thailand and Vietnam are also heavily exposed because their manufacturing-driven economies rely on steady and affordable energy imports, much of which comes from the Middle East. Singapore, while wealthy and sophisticated, is vulnerable in a different way: As a global energy trading and shipping hub, it is highly sensitive to volatility in prices and disruptions in maritime flows.

By contrast, Indonesia is somewhat cushioned by its domestic production and subsidy system, although it still faces fiscal strain and inflationary pressure. Malaysia and Brunei, meanwhile, are net energy exporters and, as such, have benefited from higher prices, but even they are susceptible to domestic price increases and regional instability. Outside Southeast Asia, larger economies such as China, Japan and South Korea are less immediately vulnerable due to greater diversification, strategic reserves and stronger institutional capacity.

This partly explains why the most interventionist responses have come from Northeast Asia. Japan, South Korea and China have adopted proactive and large-scale measures, including the release of strategic reserves, the restructuring of import patterns and the acceleration of alternative energy development. As for Southeast Asia, Thailand suspended oil exports

to protect domestic supplies, and Indonesia has increased U.S. oil imports and diversified its supplies. The Philippines was the first to declare a national emergency amid the conflict. Several others, including **Thailand and Vietnam**, have initiated energy-saving measures such as work-from-home arrangements and restrictions to reduce fuel consumption.

4 • One of the most heavily impacted sectors is **export-oriented manufacturing**, which is vital to Southeast Asia's economic model. This industry is particularly sensitive to energy costs and supply chain irregularities. As fuel prices rise, production becomes more expensive, squeezing margins and forcing firms to either absorb losses or pass costs on to consumers. Meanwhile, **logistical disruptions** delay shipments and complicate inventory management, undermining the efficiency that has historically made the region competitive. In response, firms are adapting in ways that could have lasting consequences. In the short term, they are cutting output, hedging energy costs and raising prices where possible. In the medium term, they are diversifying suppliers and reconsidering geographic concentration. And in the longer term, they mean to shift toward investing in energy resilience, including renewable energy, localized power generation and efficiency improvements. Energy security is increasingly being treated as a core strategic concern for firms rather than a background cost factor.

There is also a **noticeable return to coal and other high-emission energy sources** as governments scramble to maintain supply. The global LNG market has also tightened significantly, further constraining options for gas-dependent economies. Fiscal pressures are mounting as governments spend heavily on subsidies to shield consumers, while weaker currencies in import-dependent countries exacerbate inflation. Food security risks are also rising due to higher transportation and input costs, particularly in more vulnerable economies.

Africa

1 • The most important economies in Africa are Nigeria, West Africa's largest oil producer, and South Africa, the region's most important market economy. Broadly speaking, the war in Iran has affected the continent generally and these two countries specifically through fuel and fertilizer prices, disruptions to shipping, tighter financing conditions from multilateral lenders, weaker currencies, and increased pressures from both the cost and the availability of food and industrial inputs, particularly those in the mining industry, Africa's primary growth engine.

Nigeria has experienced the highs and lows of the Iran war's aftershocks. Higher crude oil prices have helped to boost exports and foreign currency earnings, which provides some

short-term economic relief to a government that is severely in debt. The same shock, however, has pushed up domestic fuel and transport costs, complicating disinflation efforts and making already difficult reforms to fuel subsidies politically harder to sustain. Since the conflict began, gas prices in Nigeria have risen by more than 50 percent and diesel prices by more than 70 percent, even as [the government has tried to get stronger IMF and World Bank support](#) to battle inflation. So while Nigeria benefited from the oil price spike, it did not escape the broader inflationary and financing shock.

South Africa, a net oil importer, is a large, diversified, financially significant economy that is still highly vulnerable to imported energy shocks. The South African Reserve Bank [kept its policy rate at 6.75 percent](#) because higher fuel prices were expected to push up inflation, while the government cut the fuel levy by 3 rand (\$0.18) per liter for one month to soften the blow. Reuters reported that the rand fell by nearly 7 percent against the dollar during the peak of the shock, underlining how quickly global risk aversion and imported fuel dependence affect South Africa's macroeconomic outlook.

As for regional stability, most African governments entered the crisis with very little fiscal room and high levels of indebtedness. The World Bank said debt service costs had risen from about 9 percent of revenues in 2017 to roughly 18 percent in 2025, while about half of all African countries were either already in debt distress or at high risk of it. Reuters [reported](#) that 27 of the region's 45 countries are already operating under IMF-supported programs, and that more governments have approached the institution since the war began. This is why the Iran war matters for Africa not only as a source of inflation but also as an inhibitor of sovereign financing and capital mobility.

2. Africa's economic dependencies are not on Iran itself but on the global energy, fertilizer, shipping and financing systems that the war has destabilized. The IMF has said the conflict has raised oil, gas, fertilizer and shipping costs, while also disrupting trade with Gulf partners, reducing tourist traffic and likely hurting remittances in some countries where they are vital sources of foreign currency. This matters because [the region is split](#) between a relatively small group of oil and natural resource exporters that may enjoy a temporary upside in revenue and a much larger group of fuel-importing and resource-poor countries whose trade balances and cost of living deteriorate quickly when external prices spike.

Another notable dependency is external investment and labor linkages with the Gulf. The World Bank warned that uncertainty around Gulf investment is now affecting African expectations in sectors such as mining, renewable energy, real estate, and information and communications technology, especially in East Africa, where increased competition from

Gulf countries has reaped handsome economic benefits. Remittances are also at risk if labor demand weakens in the Middle East. Ethiopia is especially exposed because of the scale of its migrant labor presence in the Gulf, while Kenya is one of the region's most exposed oil importers.

3. The countries most affected by the war fall into two broad groups. The first is the large and strategically important oil importers, especially South Africa and Kenya. South Africa was hit because it combines imported fuel dependence with deep exposure to global markets, so the shock quickly impacted the rand, bonds, inflation expectations and policy rates. Kenya was hit because of its dependence on oil imports and because of gas availability, inflation and shilling stability. Nairobi responded by requesting rapid World Bank support, cutting value-added tax on petroleum products from 13 percent to 8 percent for three months and pausing its rate-cutting cycle.

The second group has low tolerance for shocks, a high dependence on oil imports and already fragile economies where the same shock becomes much harder to absorb. The IMF highlighted tighter fuel availability and price pressure in countries such as Ethiopia, the Democratic Republic of Congo, Malawi, Sierra Leone and Zambia, while the World Bank noted stress in Burundi, Malawi, Ethiopia, Kenya and Mozambique due to oil import dependence and limited fiscal maneuverability. These are the countries in which the Iran war is most likely to accentuate already significant cost-of-living pressures and import bills and inflict even more financial instability despite the fact that they are not major players in global energy markets.

4. The industry most affected by the war is mining – one of the most defining sectors in the region's geoeconomic profile and one of the most vulnerable thanks to its inherent need for industrial inputs. The clearest case is the copper-cobalt belt of the Democratic Republic of Congo, where [Reuters reported](#) that miners have been forced to stop using key leaching chemicals such as sulfuric acid and sodium metabisulfite because shipments have been delayed or canceled. This is strategically important because Congo is vital to the global supply of copper and cobalt, so what happens there affects the entire world.

The industry has responded by adopting measures such as inventory rationing, supply chain verification and localization of chemical production. [Reuters reported](#) that Kemcore is planning to use mining chemical processing plants in Botswana and Angola to reduce

long-term dependence on imports from China and the Middle East. Ivanhoe has been able to sell sulfuric acid from its Kamao-Kakula mining operations to help with acute shortages. The unplanned benefit of this is that the war is accelerating a long-term strategic goal to regionalize chemical supply chains rather than relying so heavily on imported processing inputs.

Another industry suffering operational disruption is aviation. Nigerian airlines came close to suspending domestic flights altogether because of jet fuel costs before the government intervened to hold emergency talks. Aviation is not necessarily the most structurally important sector, but it is the fastest and most public way in which an ongoing energy shock becomes visible to consumers.

Finally, the shipping and logistics sector has had mixed results. The rerouting of shipping from, say, the Red Sea to the Cape of Good Hope has led to increases in volume in ports such as Durban, Cape Town, Walvis Bay and Lagos – all of which have seen a 30-40 percent spike in traffic. Conversely, logistics costs and lead times have risen dramatically in the majority of the remaining African ports. Because Africa as a whole is such an import-dependent continent, the overall effect results in a net loss.

For Africa, the Iran war has been a bane to logistics and input importation. It has punished East Africa and at the expense of South and West Africa, especially in terms of trade flow. While Nigeria has enjoyed an oil windfall and South Africa a shipping windfall, both are still being undermined by the high cost of the industrial chemicals and debt servicing required to keep their economies running. Both will likely try to expedite localization projects accordingly. This is no help to the many African economies that were fragile even before the war began.

Russia and the Former Soviet Union Countries of Eurasia

1 • Russia is the largest and most important country in the wider region, but a few others hold sway in what could be called sub-regions: Azerbaijan in the Caucasus, and Kazakhstan and Uzbekistan in Central Asia. The war in Iran has affected this region unevenly. Energy exporters such as Russia, Azerbaijan, Kazakhstan and Turkmenistan have benefited from the uptick in oil prices. Energy importers such as Tajikistan, Armenia, Kyrgyzstan, Georgia and, to a lesser extent, Uzbekistan, have been hit harder. Meanwhile, regional countries that trade directly with Iran or use Iran as a throughway to the markets farther afield are also feeling the pinch, while those that do not – or otherwise trade in a specific product – are less at risk.

Plenty of countries in the region have demonstrated GDP growth, but they have also experienced instability in recent years amid external and internal challenges and the restructuring

of traditional trade routes. The Russian economy is wrestling with high inflation and a slow-down amid sanctions pressure. Countries in Central Asia and the South Caucasus are facing inflation, localized commodity shortages, geopolitical tensions and uncertainty over Russia – a key partner for all economies.

2. Considering the sheer size of the region, economic dependencies are varied. Due to years of sanctions, the Russian economy remains dependent on foreign trade. It needs to continue to sell exports so that it can replenish its budget and buy things like technological products and other goods that it cannot produce itself. The economies of Kyrgyzstan, Tajikistan, Armenia, Uzbekistan and Georgia depend on energy supplies, while the Caucasus and Central Asia import a lot of machinery, equipment, chemical products, fertilizers and food products.

Overall, the region is fairly resilient because it engages only in limited trade with Iran. The volatility of oil prices has been more impactful than the economic blockade. For energy importers, rising oil prices mean rising domestic prices. However, much of the region's energy needs are met by the regional market; Russia, Kazakhstan, Turkmenistan and Azerbaijan are major producers, and they have infrastructure in place to export energy independent of what happens in the Middle East. Uzbekistan buys Iranian oil and Armenia primarily purchases natural gas from Iran, but so far there is no evidence to suggest an interruption in supplies. And even if there were, it wouldn't meaningfully affect their economies. For energy exporters, rising prices could bring an economic windfall. However, limited export infrastructure, the difficulty of rapidly increasing production, the natural decline in production at older fields, and the detection and seizure of Russian tankers have prevented some producers from making the most of high prices.

3. Considering the region is relatively resilient, the answer to the question of which country got hit hardest depends entirely on how much it was exposed to the worst-off industries.

4. Aside from energy, food and transportation were the most directly or indirectly affected in all countries of the region. Shortages, more expensive and longer transportation times, and rising resource prices have caused prices to spike. (Fertilizer supplies are pro-

duced throughout Eurasia, so markets have been relatively unaffected. There have been small price hikes reported due to high exchange demand and supply restrictions in preparation for the planting year.)

Food security is one of the most sensitive issues for this region. Iran imposed a temporary ban on the export of all food and agricultural products in March, raising the risk of price increases throughout Central Asia, especially in Turkmenistan, Uzbekistan and Tajikistan. Turkmenistan is vulnerable due to its dependence on imports from Iran, particularly food and household goods. Prices are rising due to shortages and increased transportation costs. Western **Turkmenistan** immediately felt the pinch as the price of potatoes, tomatoes and eggs spiked dramatically. Uzbekistan also depends on Iran for food, especially dairy products. Iran is estimated to be one of the country's top five largest suppliers of these products, accounting for approximately 8-10 percent of imported dairy products. Finally, Iran is one of Tajikistan's five largest trading partners. Food, household goods and building materials are **taking longer to arrive**. Tajikistan is almost entirely dependent on imports of sugar, some of which comes from Iran. Meanwhile, other countries that are less import-dependent have felt the shock in specific goods. Dried fruits, nuts and pistachios are now wildly expensive in Kazakhstan, while the prices of celery, pistachios, eggplants, kiwis, dates and bell peppers have all **risen in Russia**, which imports anywhere from 50 percent to 90 percent of these foods from Iran.

Transportation has also been hard up. In theory, there should be greater trade between Eurasia and Iran, considering the signing of a free trade agreement between the Eurasian Economic Union and Iran that provides preferential access for 90 percent of goods, and various bilateral agreements between Iran and Tajikistan, Uzbekistan and Turkmenistan. All sides prioritized the use of Iran's Chabahar port. Active hostilities complicate the use of the International North-South Transport Corridor, which connects Russia, the Caucasus and Central Asia with India and the Persian Gulf states. Escalation in the Middle East complicates the implementation of joint projects and disrupts transport routes, creating risks for all countries participating in the initiative. Uzbekistan uses the southern corridor, which leverages Iranian seaports, through which a significant portion of exports and imports are handled, including up to 60 percent of cargo from Turkey and Europe. Meanwhile, the war has delayed the delivery of goods from major distribution hubs such as Saudi Arabia. Goods from Europe, other Persian Gulf countries and India typically arrive in Dubai, are loaded onto small vessels and transit the Strait of Hormuz to Iranian ports such as Bandar Abbas. From there, they are transported by rail or truck through Turkmenistan to other Central Asian countries. The war has also complicated joint transportation projects.

The short-term impact of the Iran war is notable, especially with regard to inflation, but the region remains resilient. Trade is delayed, but it hasn't stopped altogether, and while it isn't ideal for countries of the region to turn to other partners for goods, other partners at least

exist. For regional businesses in the Caucasus, Central Asia and Russia, the longer-term inaccessibility of Iranian territory for cargo transit necessitates the implementation of alternative logistics routes.

Latin America

1 • The most important country in Latin America is Brazil, which shapes geopolitics and influences global governance through multilateral organizations like the BRICS and the G20. The war has forced on Brazil a complex policy trade-off: Though its oil industry is gaining value, the conflict also destabilizing its domestic economy. Brazil imports 70 percent of its fertilizer, so the 50 percent spike in global fertilizer prices directly threatens its agricultural output. High diesel costs are driving up food prices, creating significant domestic inflationary pressures. However, its strategic value as a major global supplier has improved, becoming a key non-OPEC producer.

2 • Regional economic dependencies come down to commodity imports. Brazil, for example, imports 70 percent of its fertilizer, while Argentina imports 50 percent. Costs are rising faster than crop revenues, so their soybean, wheat and corn sectors face declining competitiveness. Both countries struggle with domestic inflation. Economic instability – marked by inflation, debt stress and limited policy space – is compounded by external financing and volatile export earnings. Even as energy exports improve structurally, dollar strength and capital outflows intensify macroeconomic instability.

In **Mexico**, economic stability is tied to macro policy credibility, but the country remains vulnerable to tighter global financial conditions. In terms of dependencies, Mexico is deeply integrated into U.S. manufacturing supply chains and reliant on external demand and capital. Despite oil production, its limited ability to capitalize on higher prices and continued dependence on imported refined products reduce upside potential while sustaining inflation risks.

In **Chile and Peru**, economic stability is supported by strong mining sectors, but dependencies on imported energy expose the countries to higher fuel costs and inflation. Commodity export revenues (especially copper) partially offset external shocks, but open capital accounts heighten sensitivity to global financial tightening.

3 • The war in Iran has reinforced structural divides in Latin America in which countries with stronger macroeconomic foundations and export capacity will have conditional

gains, while import-dependent and financially weaker countries face greater instability. The latter group has been hit the hardest. Central American and Caribbean countries are economically fragile, have high debt burdens and lack policy buffers, even as they depend heavily on imported energy and food, making them highly exposed to inflation and external shocks.

Beyond macroeconomic effects, the war has **reshaped regional stability in Latin America** through disruptions to logistics networks, supply chains and energy flows. Increased freight costs, insurance premiums and delivery times have translated into supply chain friction, particularly for countries reliant on long-haul imports of fuel, fertilizers and industrial inputs. Chile and Peru have been among the most affected: Both depend heavily on imported refined fuels and agricultural inputs, and the rise in maritime costs has compounded domestic inflation while straining mining supply chains. Delays in critical inputs – especially for copper extraction and processing – have created second-order effects on export volumes, underscoring their vulnerability to external logistics disruptions.

Central American and Caribbean states are under even more pressure. Their geographic position makes them structurally dependent on maritime imports, and higher shipping costs have directly fed into energy and food insecurity, amplifying fiscal stress and social tensions. Fragile port infrastructure and limited storage capacity have further reduced their ability to buffer shocks, making them acutely sensitive to volatility in global supply flows.

Meanwhile, Atlantic basin producers like Brazil and Venezuela have **gained strategic importance**. Brazil has leveraged its offshore production capacity to expand exports, while also redirecting some flows toward regional partners. Venezuela, amid renewed external engagement, has seen a partial restoration of its role as a hemispheric supplier. However, infrastructure bottlenecks and underinvestment limit how quickly these countries can stabilize regional energy balances, leaving import-dependent states exposed in the interim.

In response, governments across the region have adopted more interventionist policies. Mexico has deepened fuel price controls and expanded subsidies to shield consumers while tightening coordination between state energy firms and regulators. Brazil has used a mix of targeted subsidies, strategic fuel reserves and credit support for logistics firms to stabilize domestic supply chains. Argentina has intensified import controls, rationing mechanisms and exchange rate management to preserve reserves. Several Central American and Caribbean governments have implemented temporary tariff reductions, fuel subsidies and social transfers, despite limited fiscal space.

4. A defining industry across Latin America that has been significantly affected by the war is the mining and metals sector, particularly copper and lithium, which are central

to export revenues, fiscal stability and global supply chains. Chile and Peru, the world's leading copper producers, have been the most directly affected. While global uncertainty has supported elevated copper prices, the operational side of the industry is under strain. Mining is highly energy- and input-intensive, and it needs imported diesel, explosives and chemical reagents to run. Disruptions in maritime shipping and rising fuel costs have increased production expenses and delayed delivery of key inputs. This has created a squeeze: Higher prices improve export earnings, but cost inflation and logistical bottlenecks reduce margins and constrain output growth.

The lithium sector, centered in Chile and Argentina, has experienced similar problems but with an added layer of investment uncertainty. Lithium demand remains structurally strong due to its role in energy transition technologies, yet capital inflows have become more volatile amid tighter global financial conditions. Argentina struggles to convert resource potential into stable output due to macroeconomic instability, import restrictions and limited access to foreign currency for equipment and technology.

Brazil's mining sector, led by iron ore exports, has been comparatively more resilient due to better infrastructure and diversified trade partners. But higher shipping costs and insurance premiums have reduced competitiveness at the margins, even as currency volatility complicates financial planning for large-scale extraction firms.

In response, governments and firms are adjusting along three lines. First, there is a push to localize supply chains, especially for critical inputs, though this is constrained by limited domestic industrial capacity. Second, firms are investing in energy diversification, including renewables, to reduce exposure to imported fuels. Third, governments are recalibrating regulatory and fiscal frameworks, balancing the need to attract investment with rising political pressure to capture greater rents during a period of elevated commodity prices.

Overall, the mining sector's reaction illustrates a broader regional pattern: Industries tied to global commodity markets may benefit from price effects, but their deep integration in vulnerable supply chains and energy systems leaves them exposed to persistent instability.

[Return to Index](#)

TALK TO US



What region should be on our radar next - and what's at stake?

Send us your ideas and shape the next edition.

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The New Normal in Insurance

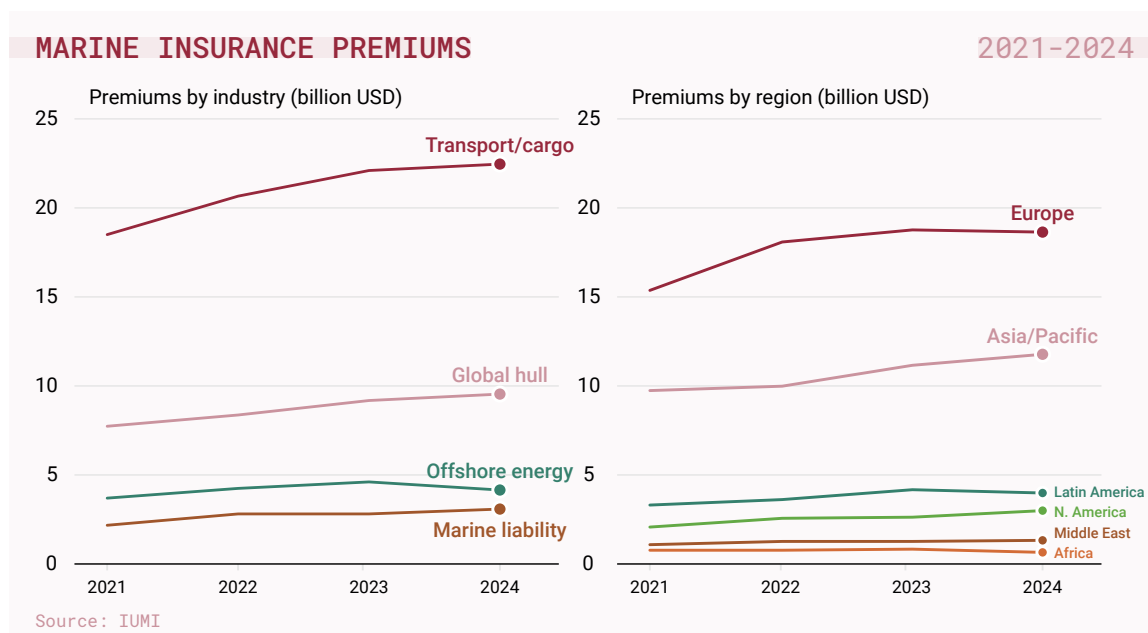
By Antonia Colibasanu

When wars erupt, attention tends to gravitate toward what has been destroyed. But the most consequential impact of the war in Iran may not be what has been destroyed but what has been transformed – namely, risk itself. The war has sent a systemic shock through the very architecture of global economics. At the center of this transformation is an unlikely but decisive actor: the insurance market.

The first signs of disruption appeared not in GDP figures or trade volumes but in the cost of insuring ships passing through the Strait of Hormuz. As tensions escalated, war risk premiums surged, forcing a rapid shift in how risk was priced and managed.

Insurance markets, particularly those anchored in financial hubs, did not collapse under pressure. Instead, they adapted, but in doing so, they exposed a deeper structural shift: Coverage stopped being standardized. Annual policies gave way to voyage-by-voyage underwriting. Risk, once pooled broadly, was now assessed in granular, transactional terms.

This shift matters because insurance is not just a financial service; it's the infrastructure that enables global trade. When insurance becomes volatile, trade itself becomes uncertain.

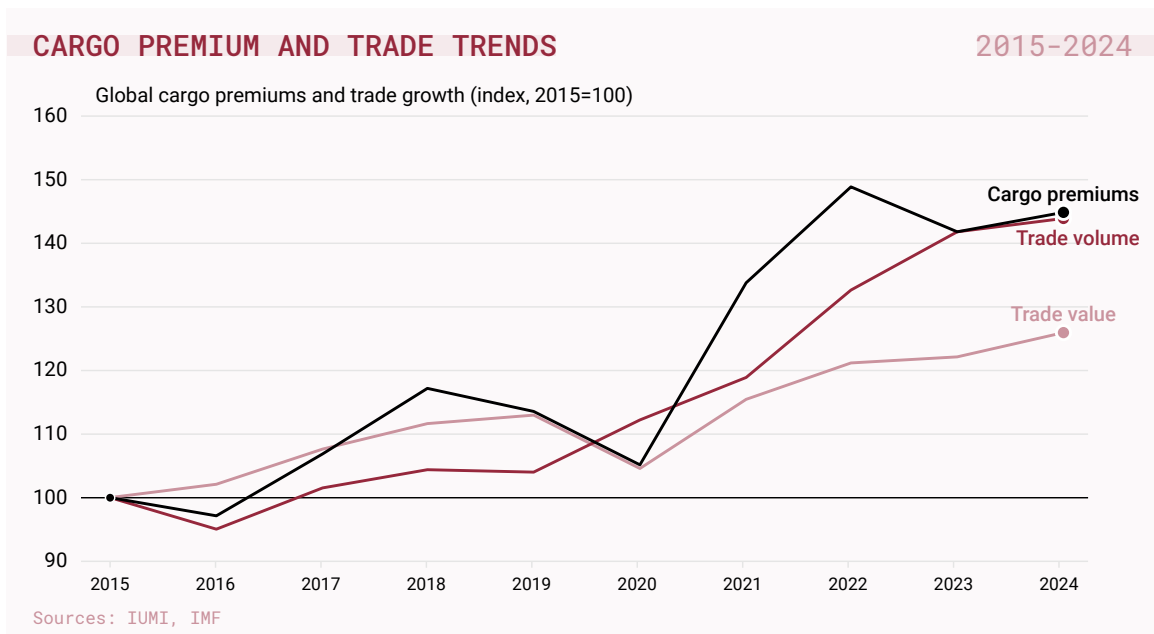


Meanwhile, many of the economic losses generated by the conflict were not insured at all. War exclusions in standard policies meant that airlines grounding flights, firms facing supply disruptions or traders encountering delays often bore the costs directly. The result was a widening gap between economic exposure and insured protection.

As private insurance markets tightened, states began to step in. Institutions like the U.S. International Development Finance Corporation moved to support maritime insurance capacity, while countries such as India developed sovereign-backed insurance pools. Major insurers, including Chubb and Beazley, participated in new consortia designed to maintain coverage in high-risk corridors.

But this is not entirely new. The seeds of this transformation were planted earlier, most notably through the sanctions regimes imposed on countries like Iran and Russia. These sanctions created parallel shipping and insurance ecosystems, often referred to as the “shadow fleet,” in which tankers operated outside Western insurance frameworks and inside opaque ownership structures and alternative, often state-backed, coverage mechanisms.

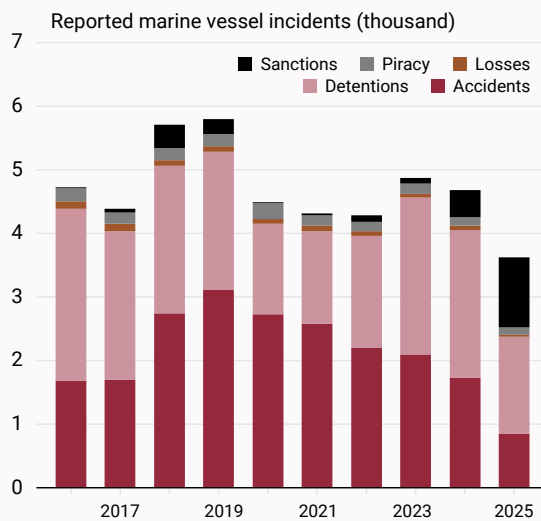
In that sense, what’s happening now is not the creation of a new system from scratch but the formalization and expansion of an already emerging parallel structure: a regulated, transparent insurance system centered around Western markets operating alongside a politically shielded system supported by regional powers and sanctions-affected actors. The difference today is scale and legitimacy. What was once informal and marginal is slowly becoming institutionalized.



The deeper significance of the Iran war lies in how it has exposed and even magnified the vulnerabilities of global trade geography. It has ultimately **repriced geography** and accelerated the emergence of regionalized insurance architectures that are backed by states and aligned with geopolitical blocs.

While the U.S. has policed the world's trade routes and ultimately guaranteed global insurers safe and free navigation, the Iran war has confirmed that in some situations, not only is the U.S. unable to provide such guarantees, but it can make them worse. Moreover, the U.S. withdrawal from the role of security guarantor means it's no longer enough to rely on global markets when the U.S. does not provide for the security of global infrastructure.

VESSEL INCIDENTS 2016-2025



Sources: IUMI, Clarksons Research

Put simply, countries are no longer willing to rely solely on global markets that can cut capacity under stress or political pressure. Instead, they are looking to build their own mechanisms to guarantee trade. Sovereign-backed pools, regional reinsurance facilities and hybrid public-private schemes are becoming central features of the system.

This reflects a broader strategic logic: control over insurance is control over trade. If a state or bloc can ensure that ships, cargo and investments remain insurable – even under sanctions or conflict – it gains a decisive economic advantage. Conversely, the ability to deny insurance becomes a powerful tool of coercion.

This is why the Iran war is unlikely to be remembered solely for its immediate disruptions. Its lasting impact lies in the structural changes that it's expediting. Security costs are becoming permanent. Insurance, compliance and risk management are now baked into the price of trade. Supply chains are becoming redundant and more expensive. Sanctions regimes are reshaping global financial flows, creating parallel systems of "permitted" and "restricted" commerce. The role of the state in risk management is expanding. Efficiency is being replaced by resilience. Most important, risk itself is becoming systemic.

If there is one sector that merits closer scrutiny in the coming months, it is insurance. Traditionally treated as a technical or secondary domain, insurance is now a core lens for understanding global transformation. It translates geopolitical risk into economic cost. It sits at the intersection of trade, finance, politics and security. And increasingly, it determines whether

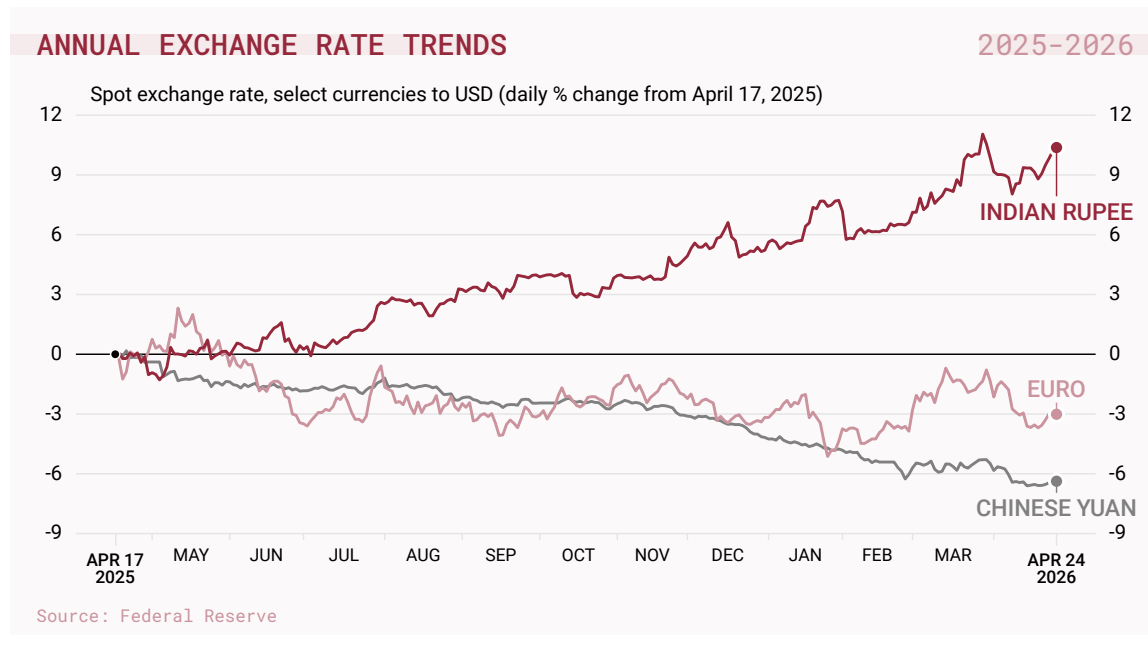
global flows continue or break down. In other words, to understand the future of the global economy, we will need to watch not just commodities, currencies or supply chains but the mechanisms that insure them.

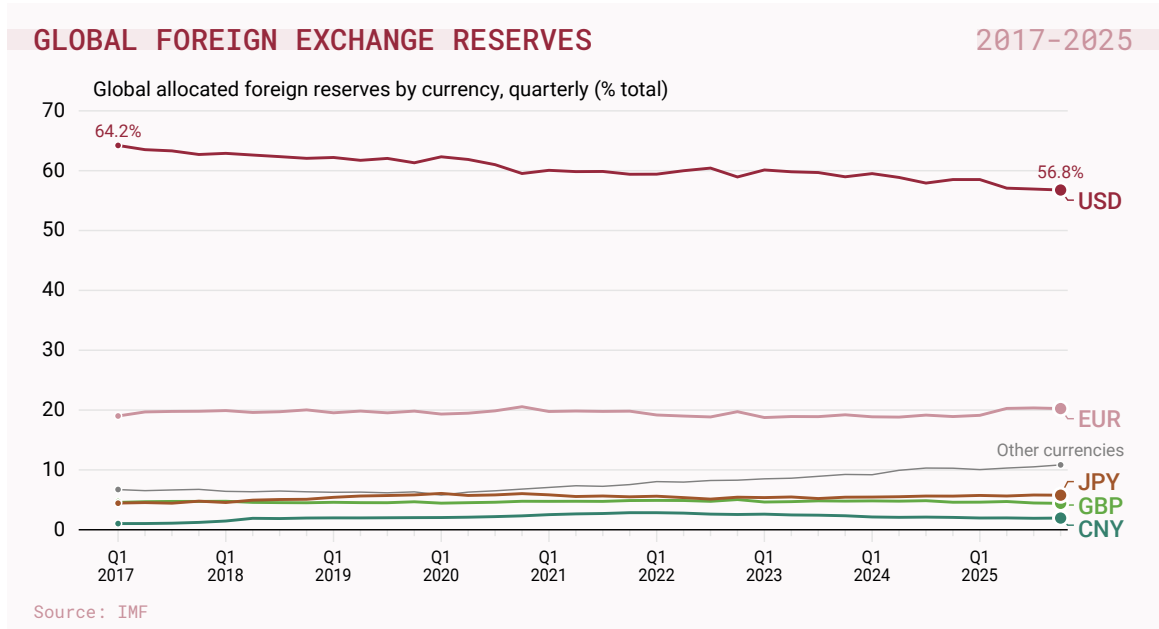
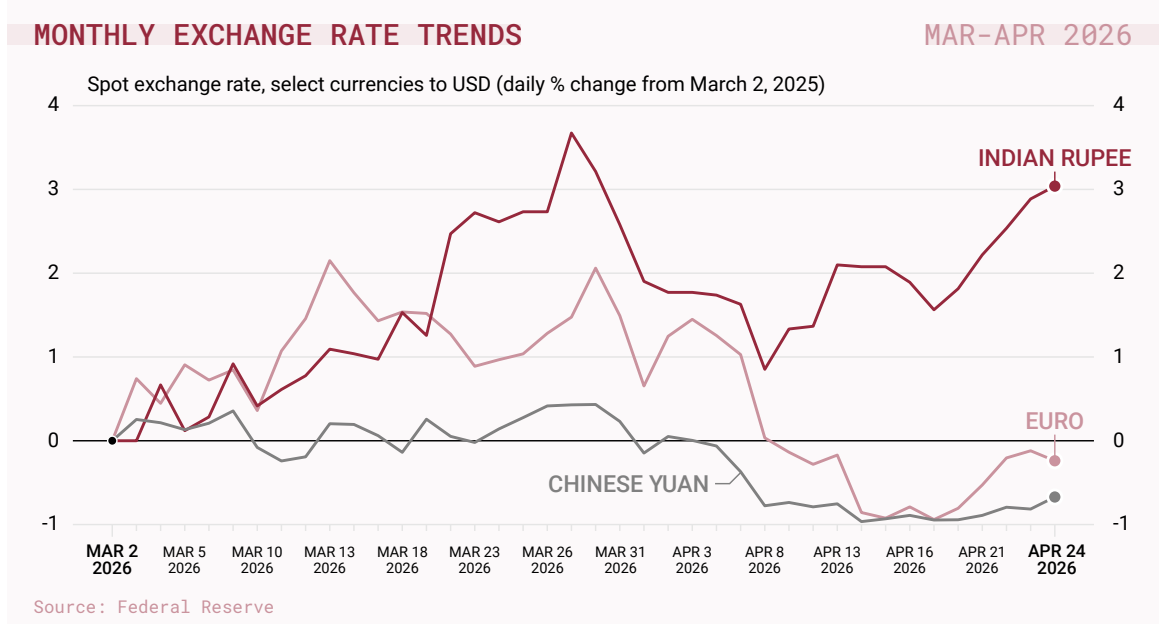
[Return to Index](#)

Graphic of the Month

We all know what economic orthodoxy says about exchange rates: that they are a fundamental tool for macroeconomic planning; that fluctuations within exchange rates can lead to imported inflation, which reduces the purchasing power of a country's household income and suppresses export potential; and so on. In assessing geopolitical risk, however, the exchange rates of individual countries become especially sensitive issues. They're subject to normal external factors like interest rates, purchasing power parity and balance of payments, but they're also influenced by less observable factors: geopolitical tension, the uncertainty of a certain economic policy, the inertia of expectations and the effects of risk tolerance. In this way, the foreign exchange market is a good tool to gauge international economic tensions.

Our methodology is based not on the traditional representation of the direct and inverse exchange rates of, say, the U.S. dollar against the euro, yuan or rupee but on the representation of the baseline increase in the absolute exchange rate. If February 2025 is the baseline, then each subsequent value of yen, euro and rupee to the U.S. dollar is compared with the initial exchange rate taken as a base. Unlike the traditional representation of daily currency fluctuations, the baseline absolute exchange rate increase serves as a strategic indicator because it eliminates short-term volatility and market fluctuations to identify general trends. This allows us to quantify the scale of currency shifts – crucial when calculating the economic impact of long-term decision-making and identifying the presence of sustainable structural shifts in the economy.





Return to Index

The Month Ahead

This section of our report highlights the key questions shaping the coming month, focusing on the issues and developments most likely to matter. We're actively working on each of these questions, and we invite you to submit your own questions so we can begin exploring them as well.

May is likely to be defined less by a single dominant event and more by the interaction of several simultaneous pressures: political instability in the United States, strategic maneuvering across the Middle East and tentative recalibration between major economic blocs.

U.S. Politics

1. *How will the U.S. political crisis reshape both domestic stability and global economic confidence?*

The immediate risk is not systemic collapse but policy paralysis and heightened uncertainty. Domestically, delays in fiscal decisions, weaker business confidence and potential disruptions (e.g., budget fights, shutdowns) could dampen growth expectations. Globally, the effect is amplified: A less predictable U.S. means more volatile capital flows, pressure on emerging markets and cautious corporate investment. The dollar may remain strong as a safe haven but with sharper swings, while allies and partners hedge against erratic policy signals.

Middle East

2. *What role will Turkey play in the Middle East, given the Lebanon-Israel dynamic, and how might that shape the regional economy?*

Turkey is likely to position itself as a strategic intermediary rather than a direct participant. Ankara will combine rhetorical pressure on Israel with pragmatic economic positioning, seeking to attract capital, logistics flows and diplomatic relevance. The economic impact hinges on whether instability pushes regional trade and finance toward Turkey, or instead deepens disruption in energy, tourism and transport corridors that Ankara itself depends on.

3. Will negotiation or escalation define the Middle East this month? What does this mean for the regional and global economy? How will Gulf countries react, and what does this mean for their economic future?

Is managed escalation more likely than resolution? At the time of writing, it seems so. No comprehensive settlement is likely, but neither is uncontrolled regional war. Instead, expect intermittent signaling, indirect negotiations and attempts to stabilize critical choke points without fully restoring confidence. The key issue is not just conflict intensity but its effect on strategic infrastructure, particularly maritime routes.

War Fallout

4. What direction will the fertilizer market take as producers and buyers reset expectations? What does this mean in terms of food price pressures later in the year, especially in import-dependent regions?

May is a decision month for fertilizer markets. With supply disruptions tied to energy and Gulf production, prices are likely to remain elevated and volatile. Producers will reassess output strategies for the next cycle, while buyers may frontload purchases or reduce usage.

5. Can air traffic stabilize, or will volatility remain the norm? Does this have effects beyond those on tourism? What else should we be thinking about in terms of issues important for the global economy?

Air traffic will likely partially recover but not normalize. Reopened airspace and adjusted routes will restore some capacity, yet high fuel costs, security risks and rerouting inefficiencies will keep prices elevated and schedules constrained. The system is adapting but remains fragile, particularly along the Europe-Asia and Middle East corridors.

6. Can NATO maintain cohesion amid internal divisions over the U.S.-Iran war, and will the Ankara summit reset the alliance or deepen its fractures?

Tensions within NATO have intensified as several European allies have refused to support U.S. military actions against Iran, exposing fundamental disagreements over strategy, legality and burden-sharing. Against this backdrop, the upcoming NATO summit in Ankara – hosted by President Recep Tayyip Erdogan's Turkey, a frontline state bridging Europe and the Middle East – takes on outsized importance. The key question for the months ahead is whether NATO can reconcile diverging threat perceptions and strategic priorities, or whether the Iran crisis will accelerate a shift toward a more fragmented, regionally driven security architecture.


U.S.-China Summit

7. *If U.S.-China talks take place, what is the most realistic outcome? Are we talking about strategic coordination or a tactical truce? And how will the others react? Japan? India? The European Union? Russia?*

Expectations around a meeting between the two countries' presidents remain high, but the substance of any talks is likely to be constrained by their deep bilateral rivalry. While dialogue could signal a willingness to stabilize relations, the more immediate question is whether the outcome would result in meaningful strategic coordination or merely a tactical pause in tensions, focused on crisis management, trade friction or military deconfliction. In the months ahead, increasing attention will also be paid to how other major actors interpret and respond to a potential consensus. Countries such as Japan and India will be watching closely for implications on regional security and alignments, while the European Union could reassess its economic and strategic positioning. Meanwhile, Russia will evaluate whether any easing in U.S.-China tensions constrains or expands its own room to maneuver. The broader question is not whether the talks will reshape the competitive landscape but how.

[Return to Index](#)

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*What should we be watching
in the month ahead?*

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